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Whole of Government in the Economic Sector



Tactics, Techniques, and Procedures



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Foreword

Iraq and Afghanistan have proven that achieving victory in today's ideological conflicts is a task beyond the capabilities of any single U.S. agency. It demands that the efforts of multiple agencies be brought together and coordinated in a whole of government approach to achieve unity of effort and a successful end state. Many U.S. government agencies such as the United States Agency for International Development, the Department of State, the Department of Defense, and others have been working overseas for many years to ensure stability, promote democracy, and relieve suffering in other nations. However, never before has it been so important to coordinate interagency efforts in rebuilding economies and reconstruction of infrastructure to diminish insurgent influence from gaining a foothold as struggling nations attempt to establish a stable and safe environment for their people.

National Security Presidential Directive 44 was signed 7 December 2005 to “promote the security of the United States through improved coordination, planning, and implementation for reconstruction and stabilization assistance for foreign states and regions at risk of, in, or in transition from conflict or civil strife.” It was the catalyst for several initiatives within different agencies; however, a lot of work still remains to synchronize the efforts of all agencies.

This newsletter is a compilation of previously published articles designed to inform military leaders at all levels of the support provided by other government agencies and the positive impact these agencies have in the Overseas Contingency Operation. The intent of this newsletter is to present ideas and concepts to promote progressive and creative thinking for all U.S. government agencies to better coordinate their efforts and seal the victory.

THOMAS JOSEPH MURPHY
COL, FA

Director, Center for Army Lessons Learned

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Center for Army Lessons Learned

Director	Colonel Thomas Joseph Murphy
Branch Chief/Managing Editor	Larry K. Hollars
CALL Analyst	William “Bill” Smith
Production Coordinator	Kristine Bell
Editor	Michael Brooks
Graphic Artist	Dan Neal
Distribution Manager	Candice Miller

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Introduction

The most recent efforts by the U.S. to stabilize and reconstruct Iraq and Afghanistan have illustrated many lessons remain to be learned about post-conflict operations. One vital and ongoing lesson is no single U.S. agency has the capacity to ensure success during stability operations; therefore, a whole of government approach must be utilized. This comprehensive approach offers greater coherence between security and development policies; ensures unity of effort; and benefits from the resources, skills, and expertise of all government agencies.

Army Field Manual 3-07, *Stability Operations*, has divided the tasks involved in stabilization and reconstruction into five stability sectors. These sectors are security, justice and reconciliation, humanitarian assistance and social well-being, governance and participation, and economic stabilization and infrastructure. This newsletter is a collection of articles focusing on the economic stabilization and infrastructure sector and addresses primarily the operational and theater level of effort. Subsequent editions will address the other four stability sectors.

History has shown the role of economics in stability operations is critical to the creation of the capacity for sustainable functioning of a rebuilt state. It has also proven sound economic governance is the key to remedying underlying tensions and minimizes the ability of insurgencies to undermine the fragile government.

The first two chapters of this newsletter provide an understanding of the challenges of successful economic development in stability operations and some of the historical models from which we base much of our current doctrine. The last two chapters will focus on more recent efforts in Iraq and Afghanistan to revitalize their economies. The articles provide examples of combined efforts and successful initiatives of several U.S. government agencies to achieve economic stability, facilitate prosperity to the populace, and deny a base of support for insurgencies.

Secretary of Defense Robert Gates said in 2007, “. . . if we are to meet the myriad of challenges around the world in the coming decades, this country must strengthen other important elements of national power . . . and create the capability to integrate and apply all of the elements of national power to problems and challenges abroad.”¹ This newsletter is an effort to capture relevant articles published in recent professional journals to stimulate thought, share ideas, and understand the efforts of other government agencies as we meet the challenges of current and future stability operations.

Endnote

1. Remarks by Secretary of Defense Robert Gates at Kansas State University, November 2007.

Joint, Interagency, and International Organization Economic Planning Integration

David Anderson and Lawrence Walton

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Introduction

Objective, mass, and unity of effort have long been used as Principles of War. An objective is a clear obtainable goal, and mass refers to merging the efforts of different organizations to achieve decisive effects. However, it is only possible to gain the necessary mass towards achieving an objective through unity of effort (JP 3-0, 2006).

The President and the National Security Council are responsible for insuring that the whole of government is unified toward achieving national strategic objectives. However, unity of effort at the national strategic level does not always translate into unity of effort at the operational and tactical levels.

The economic instrument of national power requires unity of effort between the military, Other Government Agencies (OGAs), and International Organizations (IOs) to achieve contingency operational objectives. There is a growing volume of evidence from current operations in Iraq and Afghanistan that suggests that these organizations have not been effectively integrated towards achieving economic contingency operational objectives creating operational risk. Unity of effort and decisively massing the institutional capabilities of the military, OGAs, and IOs are essential to achieving contingency operational planning objectives.

This paper examines how well integrated the Military, Other Government Agencies (OGA), and International Organizations (IO) economic functions are in contingency planning, and how well this integration reduces the operational risks in achieving contingency operational objectives. It will do so by first assessing current U.S. policy/directives and military doctrine addressing economics-related activities, and then by comparing/analyzing the military operational planning process with OGA/IO economic-related functions and widely accepted economic factors that influence economic development.

Policy and the Integration of Economic Functions

Recent policy changes have directed the military to become more involved with economic development. National Security Policy Directive-44 (NSPD-44) states that the Department of State (DOS) will coordinate planning for stability operations (NSPD-44, 2005). This directive is important because it gave DOS the authority to coordinate economic planning that involves the military and other government agencies. It is this document that established the Department of State Office of the Coordinator for Reconstruction and Stabilization (S/CRS) and the Policy Coordination Committee (PCC) for Stability and Reconstruction. While NSPD-44 provides the framework for some important changes to government operations, it has some notable shortcomings. Although it provides guidance on integrating the government's effort in stability and reconstruction operations, it does not address other aspects of contingency operations. Furthermore, it only gives S/CRS authority to coordinate military and OGA planning for operations. The lack of command authority inhibits its ability to maintain unity of effort and reduces its ability to efficiently reach non-military objectives.

Department of Defense Directive (DoDD)-3000.05 establishes stability operations as a core mission comparable with combat operations. It also states that there are many stability operations that are best performed by U.S. government civilians. However, the military must be prepared to perform all tasks until civilians can do so. It states that the military must have the ability to “revive or build the private sector, including encouraging citizen-driven, bottom-up economic activity and constructing necessary infrastructure. The military must also be prepared to integrate its stability operations with OGA, Non-Government Organizations (NGOs), and IOs. While this document makes it abundantly clear that the military must be able to integrate with other agencies and organizations on economic planning matters, it provides no specific details on how to do so.

Military Doctrine and the Integration of Economic Functions

The operations in Iraq and Afghanistan have driven several revisions to doctrine. In particular, Joint Publication (JP) 3-0: Joint Operations, U.S. Army Field Manual (FM) 3-0: Operations, U.S. Army Field Manual (FM) 3-24: Counterinsurgency, U.S. Field Manual (FM) 3-07: Stability Operations, provide important changes to the conduct of military operations. Joint Publication (JP) 3-0: Joint Operations, discusses how economics fits into operational design through the application of political, military, economic, social, infrastructure, and information (PMESII) systems, the economic line of operation and interconnected nodes, and their interdependent relationship with other lines of operations (JP 3-0, 2006).

U.S. Army Field Manual (FM) 3-0: Operations, was released in February 2008 and contains many changes that were driven by DoDD 3000.05. It addresses the importance of unified action, joint interdependence, and adds stability operations as an Army mission equal to offense and defense (FM 3-0, 2008). There are over 50 references to economics in this document, including a discussion on some critical factors to consider in planning. Unfortunately, there is very little discussion of the Army’s specific economic functions versus OGA’s and IO’s, and little detail on how economic operations vary through the spectrum of conflict and the contingency operational phase’s outlines in JP 3-0.

FM 3-24, Counterinsurgency Operations, provides a great deal of guidance not only on the economic component of counterinsurgency operations, but also on integrating civilian organizations into these operations and attaining unity of effort between these organizations. It also provides a description of the key mechanisms for integrating organizations including the National Security Council (NSC), Joint Interagency Coordination Group (JIACG), Country team, Civil-Military Operations Centers (CMOC) and tactical level integration (FM 3-24, 2006). Unfortunately, it does not speak to the economic factors that each one of these coordinating groups is supposed to address, nor does it identify how the different organizations will integrate to address economic issues at appropriate levels. While this document contains over 100 references to economics, it does not recommend that the military expand its economic expertise in economic development. Instead, it only recommends that commanders identify personnel with functional expertise in their units (FM 3-24, 2006, 8-16).

FM 3-07, Stability Operations, provides a tremendous amount of detail on the economic component of stability operations. There are over 200 references to economics in this document. It discusses the role of S/CRS and the Interagency Management System (IMS), the IMS consisting of a Country Reconstruction and Stabilization Group (CRSG) for strategic level policy coordination, Integration Planning Cell (IPC) to support the combatant commander, an Advance Civilian Team (ACT) to enhance country mission efforts. The IMS is designed to improve coordination between the military, allied countries, OGAs, and IOs. It is not intended to replace

current organizations but enhance policy and program coordination when a crisis occurs (FM 3-07, 2008). Unfortunately, this manual does not provide any specific details on how the military, OGAs and IOs will integrate their economic functions in support of economic objectives.

While economics is considered essential to most contingency operations, these doctrinal references only address economics in general terms. They do not provide sufficient detail on the functions of OGAs and IOs to effectively integrate the capabilities of these organizations into military operations. In order to improve future operations, leaders must have a better understanding of how economic factors contribute to contingency operational objectives.

The Military Operational Planning Framework and the Integration of Economic Functions

Joint doctrine describes six phases of operational planning (see Figure 1 below). The Shape and Deter phase activities are part of the Geographic Combatant Commander's Theater Security Cooperation Plans while the subsequent phases are described in operational plans. While these phases are depicted sequentially, they do not necessarily occur in order or even happen at all. In some cases, it is possible to go straight into a stability operation without having conducted the previous phases.

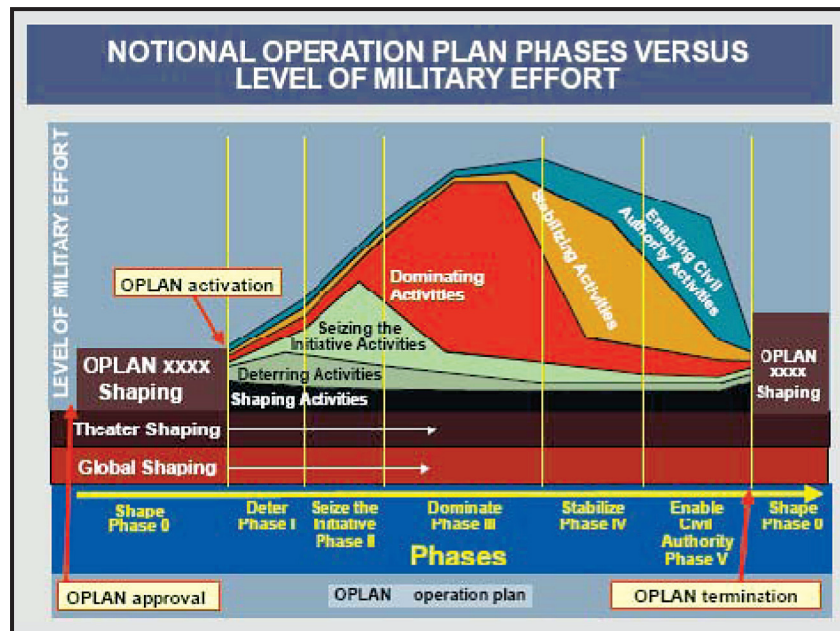


Figure 1: Joint Operational Planning Phases

Source: Department of Defense. *Joint Publication 3-0: Joint Operations*. Washington, DC: 2006, p IV-26.

It is also possible that conditions will vary between different parts of the area of operations. For example, it is possible to conduct combat operations in one area and stability operations in another area. Some organizations may not be willing to invest in a country until all parts of a country have reached the final phase. The key considerations for each phase are provided in Table 1 below. The economic component of contingency operations should support these considerations.

Contingency Phase Planning Considerations	
Phase	Considerations
Phase 0: Shape	<ul style="list-style-type: none"> Dissuade/deter potential adversaries Assure/solidify relationships with friends and allies Enhance international legitimacy Gain multinational cooperation Shape perceptions & influence behavior of both adversaries and allies Develop allied and friendly military capabilities for self defense and coalition operations Improve information sharing and intelligence sharing Provide US forces with peacetime and contingency access
Phase I: Deter	<ul style="list-style-type: none"> Deter undesirable adversary action by demonstrating the capabilities and resolve of the joint force Supports and facilitates the execution of subsequent phases of the contingency operation Continue to engage multi-national partners Coordinate with OGAs, IGOs, and NGOs to set conditions for execution of subsequent phases of the contingency operations
Phase II: Seize the Initiative	<ul style="list-style-type: none"> Execute offensive operations Force enemy culmination Set conditions for decisive operations Get access to theater infrastructure Expand friendly freedom of action Degrade enemy capabilities Establish conditions for stability Provide immediate assistance to relieve conditions that precipitated crisis
Phase III: Dominate	<ul style="list-style-type: none"> Break enemy's will for organized resistance Control operational environment Drive the enemy to culmination Set conditions for transition to next phase Relieve suffering

Phase (cont'd)	Considerations (cont'd)
Phase IV: Stabilize	<p>Required when there is limited or no functioning, legitimate civil governing entity present</p> <p>Perform limited local governance</p> <p>Integrate efforts of supporting/contributing multinational, OGA, IGO, and NGO participants</p> <p>Ensure provision of essential services</p> <p>Reduce threat to manageable level</p> <p>Ensure situation leading to original crisis does not reoccur</p> <p>Transfer regional authority to legitimate civil entity</p>
Phase V: Enable Civil Authority	<p>Enable the viability of the civil authority</p> <p>Enable the provision of essential services</p> <p>Influence the attitude of the population</p> <p>Conduct redeployment operations</p> <p>Coordinate with other nations and OGAs to achieve national strategic objectives</p>

Table 1: Key Considerations

Source: Created by the authors from JP 3-0, 2006

OGAs, IOs Organizational Economic Functions

Table 2 below summarizes the key economic functions performed by the most relevant governmental agencies (GA) and international organizations (IO) bearing on contingency operations. The key governmental agencies are the: Department of State Office of the Coordinator for Reconstruction and Stabilization (S/CRS), United States Agency for International Development (USAID), Department of Commerce (DOC), and Department of Treasury (TREAS). The key international organizations are the: United Nations Development Program (UNDP), World Bank (WB), and International Monetary Fund (IMF). While these are not the only organizations involved in the economic aspect of conflicts, they are the most

pertinent in performing economic development related functions.

Organizational Economic Functions	
Organization	Economic Functions
S/CRS	Promote conflict prevention, planning, and civilian response operations,
USAID	Promote Economic Growth, Agriculture, and Trade; Conflict Recovery, and Humanitarian Assistance
DOC	Collect and manage economic data, promote U.S. exports, enforce international trade agreements, and regulate sensitive goods and technologies, issues patents and trademarks, protects intellectual property, develop and apply technology, measurements and standards, formulate telecommunications and technology policy, fosters minority business development and promotes economic growth in distressed communities
TREAS	Manage the U.S. government's budget, taxes, currency production and circulation, combat terrorist financing, programs against money laundering, counterfeiting, and narcotics trafficking, enforce economic sanctions and embargos, oversee U.S. financial markets, manage government lending, collect data on international financial movements, foreign technical assistance, financial stability standards, develop economic policy and negotiate international economic treaties
UNDP	Promote poverty reduction, crisis prevention and recovery, environment and energy
WB	Generate funds, provide loans, provide grants, provide analytic and advisory services, and build capacity
IMF	Monitor international economic and financial development, lend to countries with balance of payments difficulties, to provide temporary financing and to support policies aimed at correcting the underlying problems; provide loans to low-income countries aimed especially at poverty reduction, provide countries with technical assistance and training in its areas of expertise

Table 2: Key Economic Functions

Source: Created by the authors.

The Department of State Coordinator of Reconstruction and Stabilization (S/CRS) fills a vital role in coordinating all governmental agencies in the post-conflict period when fully established. In their planning documents, there is no reference to the six joint operation planning phases. In their Essential Tasks matrix, S/CRS breaks down reconstruction into three phases: Phase 1-Initial Response; Phase II-Transformation; Phase III-Fostering Stability (S/CRS, 2005, iii). These three S/CRS phases overlap with the military contingency operational planning Stabilize phase (Phase IV) and Enable Civil Authority phase (Phase V). The fact that DOD and S/CRS do not use the

same operational planning model is very important. While DOD planners may expect S/CRS teams to be part of the entire operation, S/CRS personnel are primarily concerned with only the post-conflict period. Despite the fact that they are not active participants in each phase, it is important for DOD and S/CRS to collaborate continuously in order to ensure that they are ready for the post-conflict period.

The other government agencies and international organizations do not plan or synchronize operations using any semblance of a phasing construct. While the military shaping functions are outlined in Security Cooperation Plans, OGAs' and IOs' activities are only addressed in general terms even though their organizations conduct most of the shaping activities. In addition to the lack of shaping activities integration, IOs and Non-Governmental Organizations (NGOs) are not part of operational planning and may not even be allowed to see the plan due to security considerations.

Table 3 shows how the organizational economic functions shown in Table 2 relate to the military contingency operational phases first introduced in Figure 1. This determination requires some prudent judgment, since none of the organizations, except the military, use phasing concepts as part of the planning process. The arrangement of functions into contingency phases provides the basis for analyzing the integration of the organizations in collectively influencing global economic, economic balance, and economic development factors addressed next.

Economic Factors

There are many factors that need to be considered in economic planning. These factors, reflected in Figure 2, show their general relationship by category.

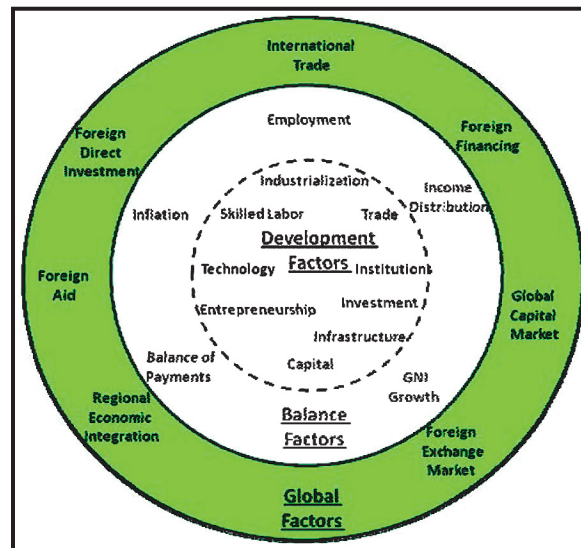


Figure 2: Economic Planning Factors

Source: Created by the authors.

Global economic influence factors are in the outside ring. They are arranged in this fashion to

show the external elements that influence a nation's economic environment. The inner two rings represent factors that influence a country's internal economic situation. The economic balance factors facilitate or constrain economic activities. The economic development factors are the resources necessary for businesses to operate. They are influenced by both the global economic factors and economic balance factors with no distinction made between the relative importance of one factor over another. All of these factors can be influenced by a combination of military, OGAs' and IOs' capacities.

Integration of organizational economic functions is important because it translates into operational capability. Organizations that perform common functions can integrate more efficiently. If there are organizations with similar functions, the combined capability of the organizations is greater, because they are able to more easily maintain unity of effort toward mutual objectives. Integration also creates synergy and economies of scale through the use of an appropriate combination of select organizations. The difficulty of maintaining unity of effort is directly related to the number of organizations required to influence all the economic factors.

Analysis

The following is an analysis of how well integrated the Military, Other Government Agencies' (OGA), and International Organizations' (IO) economic functions are in contingency operational planning and how well they reduce the operational risks in achieving contingency operational objectives. It will explain how the economic functions of the selected organizations address the economic global, balance, and development factors, in conjunction with military operational planning phases/phase considerations depicted in Table 1 and Figure 1. The analysis outcome will be an understanding of OGA and IO capabilities by military operational planning phase, redundancies and synergies between organizations, time-phase availability of organizational capabilities, possible continuity issues, and operational risk associated with the aforementioned. This understanding will provide the basis for determining the implications for military contingency planning and developing recommendations for future operations.

Global Economic Factors

No country can escape globalization. To varying degrees, every country is connected to the global economic system. During military contingency operations, organizational functions are integrated to influence global economic factors. As described in Figure 2 above, these factors are the major components of the global economy. As shown in Figure 3 below, organizations must integrate the functions that influence global economic factors to achieve contingency phase objectives.

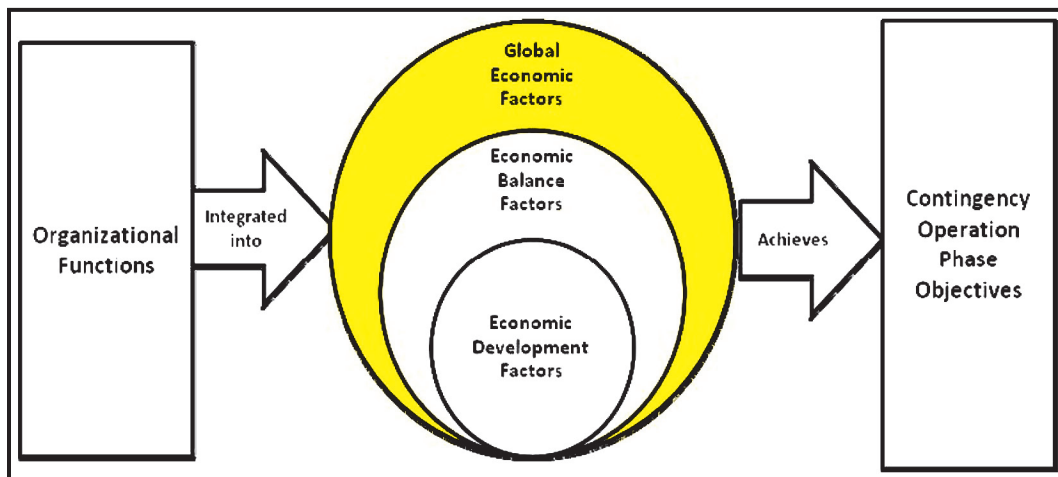


Figure 3: Economic planning model overview (Global Economic)

Source: Created by the authors.

As Figure 3 depicts, military operational objectives, described previously in Table 1, are achieved through the integrated effort of organizations to influence global economic factors. Organizations, using the functions outlined in Table 3, influence the global economic environment during each phase of the military operation. Figure 4 shows the organizations that perform functions to influence specific factors.


						
Global Economic Factors	Ph III	Ph II	Ph I	Ph 0	Ph IV	Ph V
International Trade	DOD	DOD	DOD	DOC	DOC	DOC
	DOC	DOC	DOC	TREAS	TREAS	TREAS
Foreign Direct Investment	TREAS	TREAS	TREAS	TREAS	TREAS	TREAS
	DOC	DOC	DOC	DOC	DOC	DOC
Foreign Aid/ Development				WB	WB	WB
				IMF	IMF	IMF
Regional Economic Integration	DOC	DOC	DOC	USAID	DOD	DOD
	TREAS	TREAS	TREAS	UNDP	USAID	USAID
Foreign Exchange Market	TREAS	TREAS	TREAS	WB	UNDP	UNDP
				IMF	WB	WB
Global Capital Market	TREAS	TREAS	TREAS		IMF	IMF
				TREAS	TREAS	TREAS
Foreign Financing	TREAS	TREAS	TREAS	WB	WB	WB
				IMF	IMF	IMF

Figure 4: Global Economic Factors Phase Comparison

Source: Created by the authors.

In the Shaping phase (Phase 0), organizations can influence global economic factors to either promote or constrain economic activity in a targeted country. As shown in Figure 4, the high level of common capabilities reduces operational risk in achieving operational phase objectives. USAID, UNDP, WB, and IMF play a role in providing both foreign aid and development assistance to countries around the world. They provide expertise and resources to help countries address development issues. They also help ensure that foreign aid does not inadvertently create dependency or support rebel group activities (Taylor et al., 2003, 11). The WB and IMF provide loans and technical assistance to nations. This assistance is necessary for countries that lack adequate education systems and the right expertise to build financial institutions. The TREAS, WB, and IMF influence the ability of nations to access global capital markets. They conduct financial assessments of countries. These evaluations are used by nations, investors, lending institutions, and businesses to assess the risk of conducting business and investing in foreign countries. DOC and TREAS can directly influence U.S. trade policy. In conjunction with other agencies, they have the ability to promote or retard trade. In some cases, it is possible for economic and trade policy to conflict with national security strategy (Collier and Hoeffler, 2000, 22). S/CRS conducts planning and preparation in this phase and is not responsible for coordinating government activities. Unity of effort is critical to successfully maintaining peace and shaping objectives. If shaping efforts fail, the organizations must collectively transition to deterrence operations.

Deterrence (Phase I) efforts should prevent conflict. Operational risk is increased because there is less commonality and capability to influence each factor in this phase. DOD, DOC, and TREAS play roles in restricting international trade. While TREAS and DOC restrict trade through sanctions, DOD may be directed to physically blockade the targeted nation. These actions are likely to prevent Diasporas or other sympathetic groups from providing threat regimes or rebel groups with funding and other resources (Collier, 2004, 8). DOD, DOC, and TREAS perform functions that reduce support to countries from neighboring states. Isolating the threat regime or rebel faction is critical to success in this phase (Collier, 2004, 8). Unilateral sanctions without the support of neighboring countries will not succeed. TREAS and DOC also negotiate with trade organizations to increase the participation and enforcement of sanctions. Cooperation is vitally important to the success of deterrence operations. It is possible that international organizations do not support U.S. deterrence actions. In this type of situation, the U.S. government must attempt to influence the international organizations to stop performing functions that work against U.S. interests. These efforts should be easier if there is a high level of United Nations' and international support for the operation. S/CRS does not play an active role in this phase. If deterrence operations fail, the military will likely be directed to initiate major combat operations.

In *Seize the initiative and Dominate* (Phase II and III); organizations continue to perform the same functions as the deterrence phase. However, DOD military force will be used more aggressively to isolate the enemy force from outside support. OGAs and IOs will continue to influence allies or neighboring states in support of operational objectives. S/CRS prepares for the transition to stability and reconstruction operations during this phase. Unity of effort is critical to forcing rapid culmination of major combat operations.

In *Stabilize and Enable Civil Authority* (Phase IV and V), operational risk is reduced because there is a high degree of commonality between organizations in their focus of effort. S/CRS has responsibility to lead and coordinate all government agencies in this phase. DOD, USAID, UNDP, WB, and IMF have the capacity to provide foreign aid during the stability period. It is critical that aid money clearly supports long term economic development goals (Mills, 2006, 16). Foreign aid is essential in quickly establishing government capacity. TREAS, DOC, WB, and IMF help coordinate / facilitate foreign direct investment (FDI). The skilled management and technical expertise brought into a country as part of FDI are badly needed in the post-conflict period. S/CRS, DOC, and TREAS promote regional economic integration, global capital market, and foreign financing. In the post-conflict period, external capital and investment can reduce the time needed for recovery. DOC and TREAS can provide assistance to establishing interim trade policies and establishing the flow of goods into the post-conflict country. It is important to ensure that systems are developed quickly for establishing legitimate international trade (Mills, 2006, 8). Formal trade structures will greatly reduce the influence of informal markets and provide a source of revenue to the government. Successful execution of Phase IV and V operations will enable organizations to transition back to Shaping activities.

In today's world, global economic factors can greatly influence a nation's economy. In operational Phases 0, IV, and V, operational risk is reduced due to the high degree of commonality in organizational focus of effort while there is less commonality in the other phases. It will be difficult to successfully integrate organizational activities through all phases. If these global factors are applied successfully, it will be easier to stabilize the national economy. These factors will be analyzed in the next section.

Economic Balance Factors

At the national level, economic balance factors, described in Figure 5, are conditions necessary for economic stability. These factors can enable or constrain economic development. Organizations must integrate their functions in influencing these economic balance factors to achieve contingency operational phase objectives.

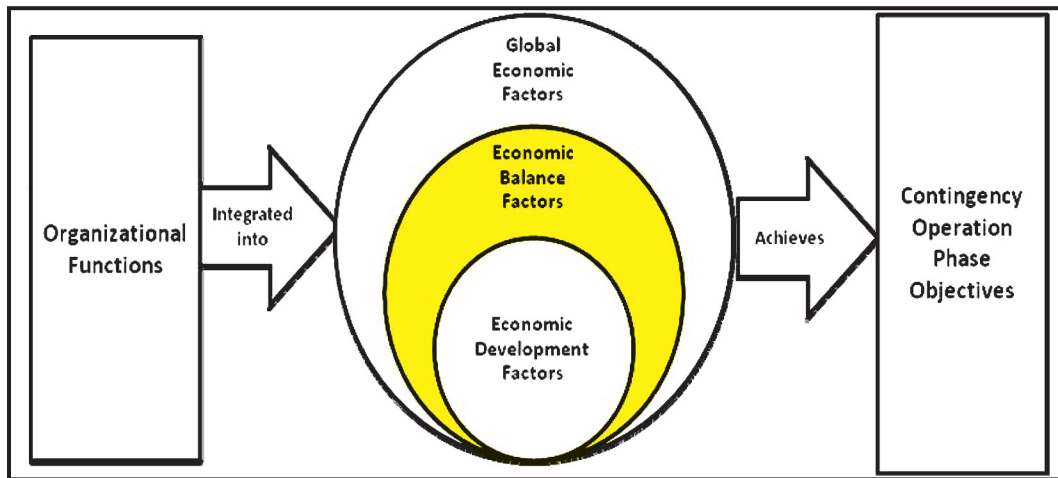


Figure 5: Economic planning model overview (Economic Balance)

Source: Created by the authors.

As described previously in Table 1, military operational objectives are achieved through the integrated effort of organizations to influence economic balance factors. Organizations, using the functions outlined in Table 3, influence economic balance factors during each phase of the military contingency operations. Figure 6 shows the organizations that perform functions to influence specific factors.


						
<u>Economic Balance</u>	Ph III	Ph II	Ph I	Ph 0	Ph IV	Ph V
<u>Factors</u>						
Employment	DOD DOC TREAS	DOD DOC TREAS	DOC TREAS	DOC TREAS USAID UNDP WB IMF	DOD S/CRS DOC TREAS USAID UNDP WB IMF	DOD S/CRS DOC TREAS USAID UNDP WB IMF
Inflation	TREAS	TREAS	TREAS	TREAS WB IMF	TREAS WB IMF	TREAS WB IMF
Balance of Payments	TREAS	TREAS	TREAS	TREAS IMF	TREAS IMF	TREAS IMF
GNI Growth	DOC	DOC	DOC	DOC TREAS USAID UNDP WB IMF	DOC TREAS USAID UNDP WB IMF	DOC TREAS USAID UNDP WB IMF
Equitable Distribution of Income	DOD	DOD		UNDP WB IMF	UNDP WB IMF	UNDP WB IMF

Figure 6: Economic Balance Factors Phase Comparison

Source: Created by the authors.

In the Shaping phase, operational risk is reduced due to the high level of commonality between organizations. All organizations perform functions that affect employment levels. Coordination is necessary between organizations to ensure that economic shaping efforts are complimentary. TREAS, WB, and IMF provide technical and analytical support to countries with inflation problems. It is essential to stabilize inflation in order to have an environment suitable for business and consumer activity. The TREAS and IMF provide loans in order to help countries with balance of payments deficits. The WB, IMF, and UNDP help governments create policies that will promote the equitable distribution of income. According to Oxford economics researcher Paul Collier, the most important economic risk factor is severe income inequality (Collier, 2004, 3-4). It is very important to promote policies that will reduce the potential for future conflict. All the organizations directly or indirectly conduct activities that support GNI growth. Sustainable economic development is enabled through capital accumulation. By increasing employment and reducing inflation and trade imbalance, there will be greater accumulation of capital. S/CRS does not actively lead or coordinate government agencies in this phase. Organizations should be prepared to transition to Deterrence if Shaping operations fail.

In the Deterrence phase (Phase I), a negative change in economic balance factors can greatly increase stress on commercial activity. Operational risk is increased because there is a significant decrease in commonality between organizations in this phase. UNDP, WB, and IMF do not have a role in directly supporting deterrence. They are peace promoting organizations and do not support military operations. DOC and TREAS actions to sanction trade and financial support will have a great effect on employment within the targeted country. The TREAS has the ability to freeze foreign assets within the U.S. and may influence other banks to do the same. These actions can reduce the targeted country's monetary means of influence. DOC actions to constrain trade can cause the GNI growth to significantly slow or even decrease. S/CRS conducts planning and preparation during this phase. Ideally, deterrence should dissuade the opposing regime or group from violence. If deterrence fails, the military will initiate combat operations.

Like the deterrence phases, Phase II and III can negatively influence economic balance factors. Many of the functions will remain the same. However, combat operations have a dramatically negative effect on the economy. The shortage of products and services is inherently inflationary and increases the economic stress on the population. Ideally, economic instability will speed enemy culmination. This stress may subsequently reduce their support of the conflict. However, it may backfire as well. Conflicts usually drive "capital flight as a rational business response to protect financial assets" (Mills, 2006, 8). This likely widens the income gap between classes during conflict. This income gap can increase the challenge of creating stability. Understanding changes, caused by conflict, is essential to creating economic stability during the post-conflict period.

During Phases IV and V, operational risk is reduced because there is a high degree of commonality between functions. S/CRS is responsible for ensuring unity of effort between all government agencies in this phase. All organizations provide programs and funds to stimulate employment. While these efforts are beneficial, they do not necessarily lead to the creation of sustainable jobs. Military, OGAs and IOs often create a superficial economy to support their own operations (Doyle, 1998, 51). When these organizations leave, the jobs also go away. This creates a cycle of dependency where the local economy relies on foreign organizations for support. It is important for organizations to coordinate their spending in the local economy in order to ensure that they do not undermine sustainable GNI growth. UNDP, WB, and IMF perform functions that reduce the inequitable distribution of income. Employment programs must be focused on demobilized soldiers and combatants. They are typically politically oriented and have an entitlement mentality that undermines the values of capitalism (Doyle, 1998, 20). Also, employment programs should be designed to draw back skilled labor. This group will leave the country permanently if not attracted back shortly after the conflict. The currency exchange rate is often very volatile both in the foreign exchange markets and on the street. Research has shown that inflation has to be controlled before a skeletal banking infrastructure can be developed (Doyle, 1998, 10). TREAS, WB, and IMF play important roles in stabilizing inflation. These organizations must work with the interim government to quickly develop and implement a monetary and fiscal policy to stabilize inflation. All organizations perform functions that promote GNI growth. Economic stability is essential to meeting termination objectives.

Changes in economic balance factors can enable or constrain the economic development environment. The benefits from economic development projects cannot be fully realized until the economy is stabilized. Like global economic factors, there is a great degree of commonality in Phases 0, IV, and V. Military, OGAs and IOs must coordinate carefully to maintain unity of effort through all phases. If they are successful in influencing these factors, the conditions will be set for successful economic development.

Economic Development Factors

Accumulated capital, reinvested into the economy, enables societies to progress from one developmental level to another. The military, OGAs and IOs should insure that their functions are properly focused on the appropriate developmental level necessary to achieve contingency phase objectives as shown in Figure 7 below.

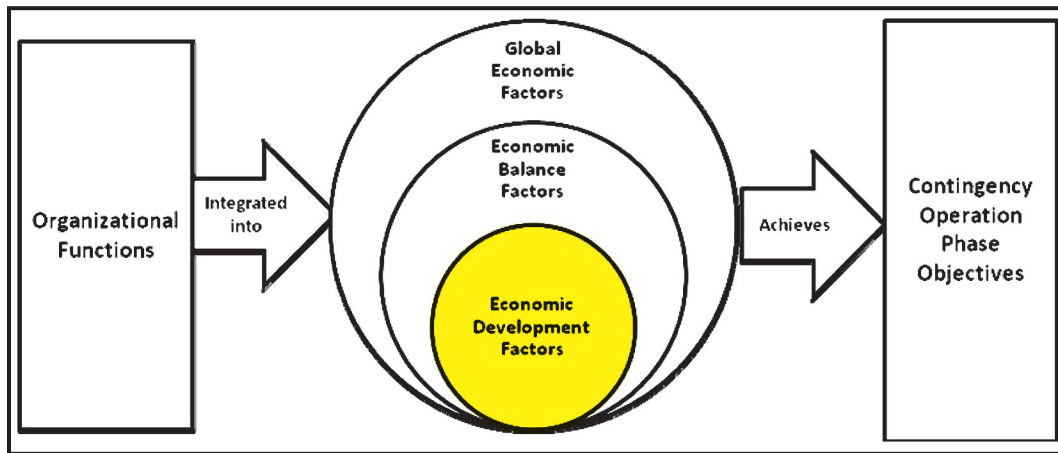


Figure 7: Economic planning model overview (Economic Development)

Source: Created by the authors.

Economic development is critical to achieving the military objectives described previously in Table 1. Using the functions outlined in Table 3, organizations influence economic development factors during each phase of the military operation. Figure 8 below shows the integration of organizations that influence these specific factors.


						
Economic Development Factors	Ph III	Ph II	Ph I	Ph 0	Ph IV	Ph V
Industrialization	DOD	DOD		USAID UNDP WB	DOD USAID UNDP	DOD USAID UNDP
Skilled Labor	DOD	DOD		USAID UNDP WB	USAID UNDP	USAID UNDP
Technology	DOD DOC	DOD DOC	DOC	DOC	DOC	DOC
Entrepreneurship	DOD	DOD		USAID UNDP WB	DOD USAID USAID	DOD USAID UNDP
Capital	TREAS	TREAS	TREAS	TREAS WB IMF	TREAS WB IMF	TREAS WB IMF
Infrastructure	DOD	DOD		USAID UNDP WB	DOD USAID UNDP	DOD USAID UNDP
Investment	DOC TREAS	DOC TREAS	DOC TREAS	DOC TREAS WB IMF	DOC TREAS WB IMF	DOC TREAS WB IMF
Institutions	DOD	DOD		S/CRS USAID DOC TREAS UNDP WB IMF	S/CRS USAID DOC TREAS UNDP WB IMF	S/CRS USAID DOC TREAS UNDP WB IMF
Trade	DOD DOC TREAS	DOD DOC TREAS	DOC TREAS	DOC TREAS	DOC TREAS	DOC TREAS

Figure 8: Economic Development Factors Phase Comparison

Source: Created by the authors.

During *Shaping operations*, operational risk is reduced by the redundant functions performed by many organizations. USAID, DOC, TREAS, UNDP, WB, and IMF provide technical and analytical support for the development of government and private sector institutions. These institutions provide the legal and regulatory framework necessary for businesses to grow. In addition to government institutions, separate regulatory agencies should be created to insure proper checks and balances (Hoeffler, 1999, 42). USAID, UNDP, and WB support the development of critical infrastructure. Growth potential is limited without sufficient infrastructure (Mills, 2006, 10). These organizations should coordinate to ensure that development projects are mutually supporting. DOC, TREAS, WB, and IMF can provide support to developing banking and investment systems. Businesses need the capital provided through

these systems to grow. USAID, UNDP, and WB support programs that help to develop skilled labor, entrepreneurship, and industrialization. It may be politically sensitive for U.S. government agencies to use taxpayer money to develop other economies. While these development efforts help to prevent conflicts, domestic jobs may be lost along the way. It is essential for the President and Congress to effectively articulate the benefits of using the economic tools of national power to promote peace and prosperity. TREAS and DOC can provide expertise in establishing trade for the accumulation of appropriate capital. Economic development occurs when societies use accumulated capital to improve their productive capacity to meet sophisticated demand (Porter, 1990, 137). These organizations not only help U.S. companies to export or establish joint ventures in other nations, but they also help other nations to understand U.S. and foreign demand. This understanding will enable entrepreneurs to leverage capital and local comparative advantages to build sustainable economies through trade. S/CRS conducts planning and preparation during this phase. Unity of effort is essential to building economic stability in other countries.

The Deterrence phase (Phase I) causes organizations to shift from promoting to constraining development. Operational risk is increased because there is less redundancy between organizations in this phase. Although deterrence is an aspect of national security, it is non-military government agencies and IOs that play the key roles. Maintaining unity of effort is essential to effectively isolate the targeted country. All organizations will likely stop providing support to economic development in this phase. The lack of support creates conditions for the informal sector to grow. Criminal interests and increased operating costs attributable to the informal market keep businesses small and inefficient (Mills, 2006, 12). This informal sector activity continues throughout the conflict and can be very difficult to overcome in the post-conflict period. The sanctions imposed by the DOC and TREAS will reduce the amount of trade revenue, products, and technology transfer into the targeted nation. Effective sanctions can influence national will and enemy force capacity to resist--but only in the short term. Eventually, other nations that do not support U.S. interests and informal market groups will work around sanctions. UNDP, WB, and IMF do not have direct roles in this phase. However, it is important to ensure that their actions do not conflict with U.S. interests. S/CRS is not responsible for leading government agencies in this phase. If deterrence fails, then combat operations could become necessary.

In Phases II and III, there is a low degree of commonality. DOD operations have devastating effects on almost all development factors in the targeted country. To varying degrees, combat operations may destroy a great deal of the infrastructure needed to provide essential services and support the economy. The damage caused by conflict can greatly reduce the capacity to provide essential services (Mills, 2006, 20). Non-DOD OGAs and IOs should coordinate with the military to ensure that critical infrastructure is identified and targeted issues are properly resolved. The amount of physical destruction can retard economic development within the country making it even more difficult to rebuild after combat operations. Additionally, a great deal of skilled labor and capital leaves the country during a conflict (Doyle, 1998, 11). While the flight of skilled labor and capital will degrade enemy force capacity, it also makes recovery more difficult. DOC and TREAS continue to isolate the country from trade, technology transfer, and foreign investment. The military cannot effectively influence these countries without expanding the war. DOC, TREAS, WB, and IMF capabilities are critical to influencing these countries. USAID plays a role in providing humanitarian assistance during these phases. While this assistance is necessary, it can also make the transition to a market economy more difficult if the population is accustomed to subsidized food, shelter, electricity, water, and other necessities. Combat operations should be followed quickly by stability and reconstruction operations that will enable the transition back to civil authority.

As the country transitions out of conflict during Phases IV and V, economic development is critical to enabling sustainable security and governance. Operational risks are reduced by a high level of redundant capabilities in this phase. Comprehensive planning is needed to address security, governance, and economic issues simultaneously. S/CRS is responsible for coordinating and leading government agencies in this phase. S/CRS, USAID, DOC, TREAS, UNDP, WB, and IMF support the development of financial institutions and provide loans. Financial institutions are critical to facilitating savings, investment, and the transactions necessary for businesses to grow. These organizations also support infrastructure development. Infrastructure is a critical aspect of economic development. While DOD has both the capacity to build some limited infrastructure and to establish contracts for small scale infrastructure development, other organizations have the capacity to direct larger and more important project contracts. Military, OGA, and IO planners should ensure that infrastructure development in the stability period is properly focused on restoring essential services and reducing transportation, production, and communication costs for the main local industries that will lead the economic recovery. DOC and TREAS play vital roles in providing the expertise necessary to reestablish trade systems. Revenue from trade will increase the government's capacity to provide security and essential services. In order to enable local production, DOD, USAID, and UNDP have programs that promote entrepreneurship through micro-lending. Local entrepreneurs should be involved in the delivery of services following conflict (Mills, 2006, 19). Government agencies are usually not as quick or efficient as small businesses. Organizations should consider local resource conditions, demand, rivalry, and supporting industries when providing loans to entrepreneurs (Porter, 1990, 137). These loan programs should support the overall development strategy and not be given arbitrarily. Unity of effort is essential between the many different organizations involved the post-conflict period. Sustainable economic development will enable civil authority to meet the security and essential service conditions necessary to satisfy termination criteria.

Economic development is critical to stability and reconstruction. While Global Economic and Economic Balance factors are important, most people do not understand their effect on the local economy. In the eyes of the population, economic development relates directly to job creation and quality of life. For example, the training programs conducted to increase skilled labor create the capacity to deliver more sophisticated products and services. Military, OGAs, and IOs must carefully coordinate to ensure that economic development factors are addressed in conjunction with global economic and economic balance factors. Successfully influencing economic development factors will lead to the achievement of operational objectives.

Conclusions

Due to the linkage between integration and capability, operational risk is related to the level of integration between the selected organizations. If there is a high level of integration, the operational risk is lower. If there is a low level of integration, the operational risk is higher. For example, the failure to constrain economic support to the fielded adversary force increases the operational risk of friendly defeat, as well as failing to promote economic activity in occupied territory increases the operational risk caused by the issuing instability. Therefore, the conclusions derived from the analysis should be considered in terms of risk to strategic and operational success. Leaders are responsible for taking actions to mitigate risk. Therefore, this research provides leaders with an understanding of the risks to operational success based on the level of integration between military, OGA, and IO economic functions. Through an improved knowledge of the economic factors that must be incorporated into planning and the functions performed by different organizations, leaders can be proactive in developing relationships and collaborating on plans for current and future operations.

Global Economic Factors

First, there is increased operational risk to achieving contingency operational objectives due to the lack of effective integration of military, OGA and IO economic functions that influence global economic factors. As shown in Figure 9, the organizations lack commonality across the phases. There is a clear risk that the massed capabilities necessary to achieve the desired effects may not be achievable. The lack of commonality between organizations greatly increases the challenges of maintaining unity of effort toward a common objective. Additionally, all factors are addressed, but the capability to influence all the factors is widely dispersed across the organizations. The fact that the capacity to address all these factors is spread so thinly across organizations greatly increases operational risk. If one organization fails to perform, the whole effort to influence these global economic factors could be undermined. However, the TREAS and DOC can, to some degree, collectively address all the factors. It is imperative that the military coordinates with these departments to ensure that their efforts support security objectives. The lack of commonality between organizations and array of institutionally unique capabilities greatly increases the challenges of integrating economic planning between these organizations.


						
Global Economic Factors	Ph III	Ph II	Ph I	Ph 0	Ph IV	Ph V
International Trade	DOD DOC	DOD DOC	DOD DOC	DOC TREAS	DOC TREAS	DOC TREAS
Foreign Direct Investment	TREAS DOC	TREAS DOC	TREAS DOC	TREAS DOC WB IMF	TREAS DOC WB IMF	TREAS DOC WB IMF
Foreign Aid/ Development				USAID UNDP WB IMF	DOD USAID UNDP WB IMF	DOD USAID UNDP WB IMF
Regional Economic Integration	DOC TREAS	DOC TREAS	DOC TREAS	DOC TREAS	S/CRS DOC TREAS	S/CRS DOC TREAS
Foreign Exchange Market	TREAS	TREAS	TREAS	TREAS IMF	TREAS IMF	TREAS IMF
Global Capital Market	TREAS	TREAS	TREAS	TREAS WB IMF	TREAS WB IMF	TREAS WB IMF
Foreign Financing	TREAS	TREAS	TREAS	TREAS WB IMF	TREAS WB IMF	TREAS WB IMF

Figure 9: Global Economic Factors Phase Comparison

Source: Created by the authors.

Economic Balance Factors

Next, there is increased operational risk to achieving contingency operational objectives due to the lack of effective integration of military, OGA and IO economic functions that influence economic balance factors. When considering economic balance factors (See Figure 10 below), there are many potential challenges to integrate the functions of the selected organizations. Operational risk is increased in phases where there are very few organizations addressing the same factor. Mass and unity of effort are critical to achieving the desired effects. The combined efforts of the DOC, TREAS, and USAID are required to address all the factors in each phase. It is critical that their actions are synchronized with military efforts. The failure to address all factors could lead to greater military and operational challenges.


						
Economic Balance Factors	Ph III	Ph II	Ph I	Ph 0	Ph IV	Ph V
Employment	DOD DOC TREAS	DOD DOC TREAS	DOC TREAS	DOC TREAS USAID UNDP WB IMF	DOD S/CRS DOC TREAS USAID UNDP WB IMF	DOD S/CRS DOC TREAS USAID UNDP WB IMF
Inflation	TREAS	TREAS	TREAS	TREAS WB IMF	TREAS WB IMF	TREAS WB IMF
Balance of Payments	TREAS	TREAS	TREAS	TREAS IMF	TREAS IMF	TREAS IMF
GNI Growth	DOC	DOC	DOC	DOC TREAS USAID UNDP WB IMF	DOC TREAS USAID UNDP WB IMF	DOC TREAS USAID UNDP WB IMF
Equitable Distribution of Income	DOD	DOD		UNDP WB IMF	UNDP WB IMF	UNDP WB IMF

Figure 10: Economic Balance Factors Phase Comparison

Source: Created by the authors.

Economic Development Factors

Finally, there is increased operational risk to achieving contingency operational objectives due to the lack of effective integration of military, OGA and IO economic functions that influence economic development factors. As shown in Figure 11, the degree of commonality between organizations varies greatly between factor and phase. In the case of institutional development, there is greater commonality. The selected organizations should maintain strong communication to ensure a coordinated approach. However, some factors are not addressed by many organizations. There is very little shared capacity to address the development of skilled labor or technology transfer. This capacity shortfall will greatly slow development due to the challenge of developing competitive products and services for domestic and global consumption. It requires almost all organizations to address all the economic development factors as well as a great deal of planning and coordination to achieve the concentration of effort necessary to successfully meet economic objectives.


						
<u>Economic Development Factors</u>	Ph III	Ph II	Ph I	Ph 0	Ph IV	Ph V
Industrialization	DOD	DOD		USAID UNDP WB	DOD USAID UNDP	DOD USAID UNDP
Skilled Labor	DOD	DOD		USAID UNDP WB	USAID UNDP	USAID UNDP
Technology	DOD DOC	DOD DOC	DOC	DOC	DOC	DOC
Entrepreneurship	DOD	DOD		USAID UNDP WB	DOD USAID USAID	DOD USAID UNDP
Capital	TREAS	TREAS	TREAS	TREAS WB IMF	TREAS WB IMF	TREAS WB IMF
Infrastructure	DOD	DOD		USAID UNDP WB	DOD USAID UNDP	DOD USAID UNDP
Investment	DOC TREAS	DOC TREAS	DOC TREAS	DOC TREAS WB IMF	DOC TREAS WB IMF	DOC TREAS WB IMF
Institutions	DOD	DOD		S/CRS USAID DOC TREAS UNDP WB IMF	S/CRS USAID DOC TREAS UNDP WB IMF	S/CRS USAID DOC TREAS UNDP WB IMF
Trade	DOD DOC TREAS	DOD DOC TREAS	DOC TREAS	DOC TREAS	DOC TREAS	DOC TREAS

Figure 11: Economic Development Factors Phase Comparison

Source: Created by the authors.

There are many challenges to integrating all of these organizations. As shown in Figure 12, the selected organizations place different levels of emphasis on global economic, economic balance, and economic development factors. Organizations with similar capabilities integrate their operations more easily. Based on their related functions, DOD, USAID, and UNDP form a group that have the greatest capability to integrate on development issues. DOC, TREAS, WB, and IMF form another group that has the capability to integrate global and balance issues. S/CRS has limited capacity, but its structure provides the ability to bridge the gap between the two groups. Military, OGA, and IO leaders should understand each other's contribution to the operation and establish the necessary linkages to improve unity of effort.

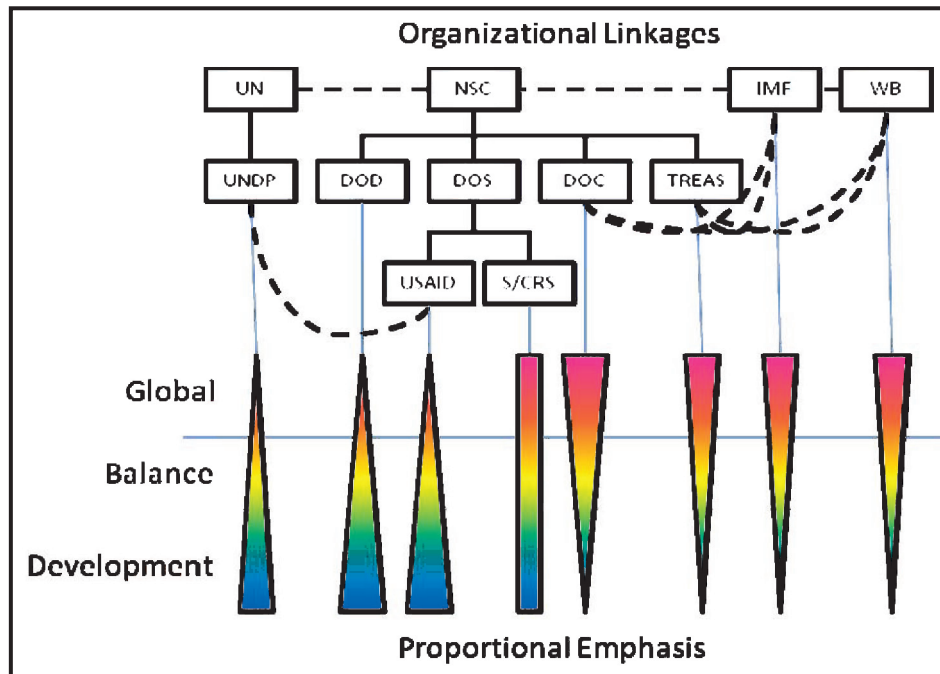


Figure 12: Organizational Linkages

Source: Created by the authors.

Recommendations

Leaders should understand the relevant global economic, economic balance, and economic development factors and how organizations contribute to contingency operational objectives. Operational risk is reduced by fulfilling economic objectives that support security and governance objectives. The economic aspect of contingency operations requires significant coordination and negotiation between the military, OGAs and IOs.

Based on the need to integrate groups of organizations that focus on global economic conditions and other groups that focus on economic development, S/CRS is uniquely postured and organized to facilitate coordination between these different groups. Its structure should be expanded to provide Advanced Civilian Teams (ACT) down to the tactical level during contingency operations, because it is the best conduit to link organizations performing disparate functions. As discussed, DOC, TREAS, WB, and IMF perform functions that have global implications. They can do so because they are empowered by laws and international agreements. Other organizations cannot perform these same functions even if they have the expertise. DOD,

USAID, and UNDP have the personnel and resources to actually affect economic development at the ground level. These capabilities are inherently disconnected due to the specialized resources and expertise. Coordination is essential since no organization has the capacity to perform all necessary functions. S/CRS adds a capability needed to improve coordination between military, OGA, and IO efforts at strategic, operational, and tactical levels.

DOD should create an economics specialty for military personnel. Within this specialty, there should be trained experts who understand international economics, economic policy and development economics. Along with current DOD civilian economic specialists, these military personnel would provide an improved capacity to coordinate efforts between the military, OGAs, NGOs, and IOs through a shared understanding of the economic component of national power, theater level security cooperation plans, and contingency plans. Their knowledge would be invaluable to intelligence, targeting, and information operations. This recommendation is also supported by the research conducted by David A. Anderson and Andrew Wallen in their Military Review article, "Preparing for Economics in Stability Operations" (Anderson and Wallen, 2008, 92). It is critical that the DOD has the economic expertise necessary to leverage capabilities of other agencies and organizations.

Economic integration can be improved through education. The economic component of national security strategy and contingency operational planning should be taught at all Armed Forces Command and General Staff Colleges, the War College, and National Defense University. All military leaders and staff officers should understand the critical economic factors and the functions performed by OGAs, IOs and even NGOs. It is also recommended that the military support Advanced Civil Schooling for officers who wish to obtain advanced degrees in Economics. As the most critical aspect of battle command, understanding the critical economic factors and how various organizations influence the economic environment is essential to a military leader's ability to visualize the linkages that need to be made with other organizations.

An exchange program can increase understanding and facilitate the integration of the military and OGAs. This program is a specified task in both NSPD-44 and DoDD 3000.05 that has not been fully implemented yet. As shown previously in Figure 12, the organizations form two groups with different levels of focus. Leaders from organizations with similar functions can build relationships that will lead to successful collaboration. Leaders from organizations with different functions can develop a better understanding of how their organization contributes to contingency operations. In this exchange program, they would exchange personnel for short internships to build relationships and knowledge of how their respective organization functions. The importance of personal relationships cannot be over stated in raising the ability of the military to effectively integrate with OGAs.

The military should consider changes to its force structure to reduce capability gaps. While many of the global economic and economic balance factors are beyond the capability of the military to influence, many of the economic development factors can be addressed by the military with additional force structure. In particular, the military should have the capability to address the factors in Table 4 below. It is essential to establish economic stability and begin working on the policies and infrastructure necessary for long term economic viability as quickly as possible after major combat operations. Since the military is often the only organization capable of working in a non-secure environment following combat operations, it should have the capabilities necessary to address employment and infrastructure issues before OGAs and IOs can take them over when the situation permits (FM 3-07, 2008, 3-14). The lack of economic development capabilities directly affects the number of Soldiers, resources, and time necessary to meet combat and stability objectives.

Military Economic Development Capability Gaps	
Factor	Capability Needed
Industrialization	Provide expertise to assist local manufacturers to restore production capacity
Skilled Labor	Provide secure education centers for build local expertise on business, international trade, and technical vocations
Technology	Establish cellular and data network essential for commerce
Entrepreneurship	Provide small business training programs and microlending programs
Capital	Provide interim national financial system
Infrastructure	Provide forces and/or resources necessary for economic infrastructure development
Investment	Provide communications, protection, and sustainment to foreign investors conducting research or conducting business in local area
Institutions	Provide expert and technical assistance to local government leaders on the development of economic institutions
Trade	Provide communication, protection, and sustainment to multinational companies conducting research or establishing operations in the local area.

Table 4: Military Economic Development Capability Gaps

Source: Created by the authors.

Finally, military doctrine--joint doctrine, in particular, insufficiently covers the economic component of military operations. This paper used global economic, economic balance and economic development factors from non-military sources to compare organizational functions, because military doctrine did not provide the level of detail necessary to perform this analysis. Doctrine needs to be developed that specifically addresses the economic component of military operations at the strategic, operational, and tactical levels.

Dr. David A. Anderson retired from the U.S. Marine Corps in 2005. He is an Associate Professor, Department of Joint, Interagency, and Multinational Operations, U.S. Army Command and General Staff College, Fort Leavenworth, KS. He teaches strategic / operational studies and economics.

Major Lawrence Walton, U.S. Army is a recent graduate of the Army Command and General Staff College (CGSC). He holds a MMAS degree from CGSC and a MBA from North Alabama. He is heading back to Iraq to serve with 10th Mountain Division.

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A Guide to Economic Growth in Post-Conflict Countries Executive Summary

**Office of Economic Growth Bureau for Economic Growth, Agriculture and Trade,
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This Guide to Economic Growth in Post-Conflict Countries seeks to fill a gap in the information available to decision-makers faced with the urgent, all-encompassing needs of a country emerging from conflict. The Guide brings together lessons learned from past and current efforts to promote economic growth in post-conflict countries. It proposes a new approach and provides concrete recommendations for establishing effective economic growth programs that will improve well-being and contribute to preventing a return to conflict. The Guide does not provide a checklist applicable in all post-conflict settings, although it does provide the basis for constructing a checklist appropriate to a specific country context.

The lessons learned and program recommendation in the Guide also are applicable in situations where conflict has been limited to specific geographic regions within a country, such as northern Uganda and southern Sudan. However, because there still is much to be learned about how economic growth programs contribute to ending a conflict, it is unclear whether the concepts presented here also apply in countries currently in the midst of general conflict. Accordingly, the Guide's programming suggestions should not be applied unquestioningly in mid-conflict situations.

The Guide is intended to be practical: it can be applied in the chaotic circumstances that prevail in post-conflict settings. Part 1, *A New Approach to Post-Conflict Recovery*, describes the economic impact of conflict and suggests ways to set economic growth priorities. Part 2, Best Practices, discusses lessons learned and provides recommendation for seven specific sectors; 1) Macroeconomic foundations, including both fiscal and monetary policy and institutions; 2) employment generation; 3) infrastructure; 4) private-sector development, including both the private-sector enabling environment and enterprise development; 5) agriculture; 6) banking and finance; and 7) international trade and border management.

Economic Growth Programs: A Significant Part of the Solution

The purpose of economic growth programming in post-conflict countries is both to reduce the risk of a return to conflict and to accelerate the improvement of well-being for everyone, particularly the conflict-affected population. Economic issues may have contributed to the outbreak of violence in the first place, through the inequitable distribution of assets and opportunities or simply a widely held perception of inequitable distribution. Economic interventions need to be an integral part of a comprehensive restructuring and stabilization program. While economic growth is not the sole solution to resolving post-conflict issues, it can clearly be a significant part of the solution.

A New Approach

Evidence shows that early attention to the fundamentals of economic growth increases the likelihood of successfully preventing a return to conflict and moving forward with renewed growth. Since 40 percent of post-conflict countries have fallen back into conflict within a decade, it is critically important to heed this evidence and alter the familiar donor approach, which focuses first on humanitarian assistance and democracy-building, with economic issues sidelined to be dealt with later.

Start early: Paul Collier, professor of economics at Oxford University and leading expert on African economies, argues that external peacekeeper and robust economic growth have proven to be more critical than political reform in preventing a return to conflict.¹ Accordingly, many interventions designed to facilitate economic growth can and should be implemented at the very beginning of the rebuilding process, much earlier than traditionally has been the case. Bureau for Economic Growth, Agriculture and Trade

Address the causes of conflict: It is critical to understand that paying immediate attention to economic growth does not mean doing the same thing that ordinarily is done in stable developing countries. Post-conflict environments demand a different approach. Countries emerging from violence have fundamentally different characteristics as a result of conflict. Most post-conflict countries were already poor and badly governed prior to the outbreak of violence. Their problems were almost always made worse by conflict. More importantly, the nature of many of their problems also changed. Post-conflict settings are characterized by physical and human destruction; dislocation, unemployment, and demobilization of combatants; a weak and fragile government; high expectations and a sense of urgency; and residual geographic, ethnic, or other tensions. Post-conflict economic growth programs must address as directly as possible the factors that led to the conflict, taking into account the fragility of the environment. Planning has to be based on much more than the narrow technical considerations of economic efficiency and growth stimulation. Programs also must be effective at expanding opportunities and increasing inclusiveness throughout the population; they should be judged in part on the basis of whether or not they help mitigate political factors that increase the risk of a return to hostilities.

What is required for success?

Clear goals: Clear goals are critical, because—in the chaotic circumstances that characterize the post-conflict period—everything seems to be needed at once, and there may be many actors with differing priorities. Each post-conflict situation is different, but in general, economic growth programs should aim to:

- reestablish essential economic governance functions and restore the government's legitimacy;
- boost employment and improve well-being as quickly as possible;
- address the root economic causes of the conflict; and,
- stabilize the economy and position it to grow rapidly.

Sensitivity to context: In the post-conflict context, there must be heightened sensitivity to the political and social dimensions of the conflict. Economic growth programs must address these dimensions. Donors must consider the nature of the conflict, the nature of the peace, and the country's level of development as it emerges from the conflict. To be effective in such a sensitive political environment, every rebuilding decision should include a consideration of the impact it may have on the legitimacy of the government, on employment and improved welfare, and on equity or perceptions of equity for the various factions participating in the conflict.

A pragmatic approach: At the core of all donor-supported economic growth programs must lay a highly pragmatic approach, based on an understanding of the critical barriers to resuming growth. Such an approach addresses simple issues first, removes barriers to the informal sector, and is structured in a way that offers the greatest immediate benefits in an equitable manner.

Host-country ownership: Post-conflict economic growth programs need to be carried out with maximum host-country ownership of the reforms, using national systems as much as possible. In addition, initiatives should be developed through a well-coordinated process that integrates multiple donors and the host government. Donors need to make effective coordination mechanisms a high priority from the beginning.

How should it be done?

Donors should begin work in multiple areas immediately and simultaneously, and begin early on to build long-term capacity.

Focus on the basics: Economic growth programming should focus on the basics of a functioning economy, with early emphasis on short-term effectiveness in stimulating economic activity and creating jobs, rather than on longer-term economic efficiency. In general, short-term results should trump longer-term issues in terms of programming choices. There are, however, no hard-and-fast rules about these trade-offs. Judgment must be applied in every case.

Establish priorities: During the immediate post-conflict period, there may be a narrow window of opportunity to introduce difficult economic reforms. There also may be extreme limits on the government's capacity to implement change. Often, so many changes are needed that donors, working with the host country government, have to set immediate priorities on the basis of what will most quickly and most effectively generate employment and stimulate the economy.

Understand recurring trade-offs: Substantial structural challenges and the ever-present risk of a return to conflict mean that donors need to make decisions quickly, balancing specific trade-offs that are much more acute than in stable developing countries. Four trade-offs recur:

- the need for *effective* economic solutions in the short-term while moving toward more *efficient* ones over time;
- the tension between the need to achieve tasks *urgently* and the effect such actions (if they bypass local institutions) might have on the government's perceived *legitimacy*;
- the conflicts that can arise between *short-term* and *long-term* objectives; and,
- the desire to use the *window of opportunity* to make dramatic economic reforms immediately after the conflict, contrasted with most governments' very limited absorptive capacity to manage change.

Pay attention to sequencing: The termination of conflict creates an immediate rebound of economic activity, though typically not to pre-conflict levels. Donor and government consumption of local goods and services stimulates broader economic activity. Job-creation programs generate a temporary upsurge in employment and consumption. Donor and government investments in physical and social infrastructure stimulate demand in the short run and support growth in the medium and long term. Regardless of the effectiveness of donor-financed programs in the short run, however, it is the country's capacity to sustain economic growth that matters most for long-term success. Donors must work with local government and non-governmental entities to quickly restore the delivery of critical public services. This will almost always require the use of external actors because of the diminished capacity of host-country institutions following a conflict. Donors should seek to associate their activities and the activities of NGOs and contractors they support with the host government in a way that re-establishes its legitimacy.

However, donors should avoid “quick-fix” approaches that bypass existing local capacity. Instead, donors should look for opportunities to make use of local capacity and begin rebuilding host-country capacity as quickly as possible. A greater role for host-country institutions in delivering services will be one of the most effective ways to re-establish the legitimacy of the host government. Donors and the host government must also communicate clearly and often to the public about what they are doing together to meet people’s needs. These communications should be based on shared objectives for the post-conflict recovery and informed by the work of donor-host country coordination mechanisms. The highly stylized diagram that follows illustrates how post-conflict economic growth programming can be approached. Early emphasis on providing humanitarian assistance and expanding physical security must be accompanied by programs to provide jobs and critical public services, and reconstruct key economic infrastructure. Rapid growth requires sound economic policies to be established from the very beginning. In the longer term, programs must build the host country’s capacity to elicit the self-sustaining growth of a healthy economy. As results are achieved in the immediate post-conflict period, donors should assess which initiatives should shift from an emphasis on effectiveness and short-term results to a more traditional emphasis on economic efficiency and long-term growth. The types of short-term programs that are appropriate for creating jobs and improving well-being immediately following a conflict cannot and should not be funded in perpetuity by donors. There must be the clear prospect of growth through sustainable, productive, private-sector employment to displace short-term donor programs. It must be kept in mind that the patterns shown in the diagram are purely illustrative; a great deal of flexibility must be built into programs to allow them to respond to rapidly evolving post-conflict circumstances.

What should be done?

In the short term: During the early post-conflict period, donors may be required to carry out any or all of the following, to ensure a successful economic transformation and post-conflict recovery:

- Vigorously promote local private-sector participation in relief and humanitarian assistance programs.
- Phase down refugee camps as soon as possible, to encourage displaced families to return to their previous economic activities, except where such activities are no longer economically viable.
- Ensure that the country has a viable currency, accepted for trade and commercial transactions.
- Ensure that the government can make payments and collect revenues. Build the country’s capacity to manage its fiscal responsibilities.
- Avoid too much appreciation of the exchange rate, such as that which can result from large donor expenditures, which will reduce the country’s export competitiveness.
- Knock down as many obvious barriers to both formal and informal economic activity as possible, as quickly as possible. Such barriers could include everything from price controls to unnecessary administrative requirements. Consult widely with both the public and private sectors to understand what needs to be done to unleash economic activity.

- Promote employment generation and stimulate the economy. For maximum effect, do not place undue emphasis on the ultimate sustainability of the activities. Rather, the immediate goal is to get labor and capital back to work, and quickly. Employment generation programs should include, but not be limited to, activities targeting ex-combatants.
- Provide grants to a variety of groups, making the time-limited nature of donor funding clear from the outset. Grants may be made to support government-managed public works, for example, and should be made to a wide range of community organizations, businesses, and conflict-affected populations.
- Reduce physical obstacles and eliminate barriers to movement and commerce, particularly for rural and agricultural markets. Promote the flow of market information, and encourage the development of regional and international markets for agricultural products. If needed, remove land mines; make emergency repairs to power systems, roads, railways, ports, and airports; restore basic utilities; and establish modern communications systems.
- Establish procedures for handling property and contract disputes, including recognizing customary laws already in use. Establish a transparent, binding process to resolve the claims of former property owners returning to the country, balancing social and political constraints.
- Do not view privatization as an all-or-nothing choice. Sell small state-owned enterprises (SOEs) to private investors or subject them to competition.
- Consider sustaining or restarting some of the operations of larger SOEs to help generate employment. Avoid large, unsustainable subsidies to large SOEs, however, and introduce measures such as management contracts, hard budget constraints, and competition. Keep in mind that the longer term objective is to ensure there will be effective competition and, in many cases, privatization or liquidation of SOEs.
- Focus on local investment and local employers (and possibly south-south investment) as a source of increased demand. Do not rely on foreign direct investment from developed countries to generate this demand in the short term, because most foreign investors will wait for the risk of resumed conflict to abate before they invest.
- Ensure that basic economic data are collected to monitor economic stabilization and the growth of economic activity.

In the long term: As progress is achieved in each programming area (which will occur at different rates in different areas of activity) donors should shift away from short-term fixes and increase their emphasis on efficiency-enhancing, sustainable increases in productivity to maximize long-term economic growth.

Part 2 of the Guide, *Best Practices*, provides specific recommendations for achieving short- and long-term goals—and managing the transitions between them—in each major sector of economic growth activity.

Notes

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The Military and Reconstruction Operations

Mick Ryan

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The post-Cold War trend of convergence between military and nonmilitary tasks has accelerated over the past six years as western nations seek to defeat the insurgencies in Afghanistan and Iraq.¹ One result of this convergence is an increased role for military forces in the conduct of humanitarian missions previously viewed as the sole preserve of nongovernmental organizations. This transition is reflected in a greater emphasis on reconstruction activities by the military in contemporary operations.

To some extent, most western military organizations involved in Iraq or Afghanistan now appreciate the requirement for military units to conduct reconstruction operations as part of their normal missions. At the strategic level, the governments of the United States, the United Kingdom, and Canada have established government offices for developing a more coherent approach to nation-building activities.² The Provincial Reconstruction Teams established in Iraq and Afghanistan over the last several years are evidence of this. These may have a limited impact in some higher threat areas because of a lack of sufficient, integral intelligence, surveillance, and reconnaissance (ISR) and force protection assets.

A more robust approach to military-led reconstruction operations would see organizations with increased mobility, a strengthened ISR capability, and enhanced security.³ This self-contained capability will allow for the conduct of reconstruction operations where and when required. If the indigenous capacity is weak and nongovernmental organizations are unable to work securely, such an organization can make a significant contribution to shaping the opinions and perceptions of the local population. This article examines the contribution of military-led reconstruction operations as part of a unified counterinsurgency campaign.⁴ These operations require the precise, discriminate application of nonkinetic effects to support the overall campaign plan in an effort to defeat contemporary and future insurgencies. Such operations require the allocation of significant combat support elements such as engineers and civil affairs, and should be synchronized within a joint, interagency application of national resources in support of the counterinsurgency effort. The ultimate aim of these operations is to coerce or persuade target populations to support friendly forces over insurgents.

Reconstruction and Counterinsurgency

Reconstruction operations play a vital role within the broader conduct of a counterinsurgency campaign. In many respects, the effects of reconstruction activities will have a more enduring influence than tactical, nonkinetic operations. This is not to minimize the importance of robust combat forces; there will always be a need to target certain insurgent elements for destruction. But the population-centric nature of counterinsurgency means that kinetic operations may often play a supporting role for other nation-building activities. The ability of the counterinsurgent to achieve the right balance between precise, discriminate kinetic and nonkinetic actions will have a major impact on how successfully local populations can be influenced.

Given the number of civilian agencies and the depth of their capabilities and experience, some may question the rationale for an expanded role for military organizations in reconstruction operations. The harsh reality is that in many areas such as southern Afghanistan and Iraq, tenuous security conditions prevent many aid groups and other government agencies from establishing

a presence. In some instances these aid organizations, and other contractors, are deliberately targeted by insurgent groups in an effort to prevent them from gaining a foothold and becoming effective in assisting the local populace.⁵ In spite of these negative influences, the need for reconstruction operations in support of security missions remains. This capacity is best provided by highly capable organizations that possess an integral mobility and protection capability permitting the conduct of reconstruction operations with minimal interference from insurgents. Only military organizations, particularly military engineers, possess the ability to conduct reconstruction activities while concurrently providing robust self-protection.

Military-led reconstruction operations provide time and space for indigenous capacity to backfill existing military programs and functions. They also allow for the eventual integration of nongovernmental and aid organizations. This is not to say that reconstruction operations occur only after kinetic operations have terminated. The key to any successful counterinsurgency campaign is the commencement of reconstruction activities from the very beginning of the campaign. Such campaigns and their accompanying strategies require some cultural adjustment in most western military organizations.⁶ In traditional, conventional operations, the enemy is the object. Their defeat or destruction is the key goal of military forces. Consequently, Army combat units (infantry, armor, attack aviation) have primacy on the battlefield and are supported by a range of combat support and combat service support organizations. In complex insurgencies, however, when opposed by western nations and their militaries, the population is the object.⁷ As a consequence, the main effort becomes the effects generated by those military (combat support and service support) organizations that are best suited to provide support to population operations and the rebuilding of indigenous capacity. Security operations, conducted by combat units, should be integrated into these population support operations.⁸

The conduct of large-scale reconstruction operations by military organizations may require a reallocation of resources from kinetic security operations into what have traditionally been support roles, such as construction and civil liaison. While undertaking reconstruction, military engineers may also teach the local populace basic trade skills and the planning and conduct of construction tasks, while ensuring that the indigenous capacity to execute such skills and tasks is constantly improving. Providing skills improvement to the local population is an effective way to assist disrupted populations in helping themselves and is a key element of any exit strategy.

In the conduct of reconstruction operations, both the populace and the nascent indigenous government often require additional support. This should be done concurrently, both to enhance the legitimacy of the government and to maintain the credibility of the military forces performing the reconstruction operations in the eyes of the local populace. This two-tiered approach could be described as a top-down–bottom-up approach. Such an approach is best exemplified by the conduct of concurrent operations to rebuild government institutions and infrastructure (top-down), while at the same time conducting small-scale missions to assist the people in individual towns and villages (bottom-up) based on community priorities.

Reconstruction undertaken in the top-down category should wherever possible be based on the priorities of provincial officials. This requires detailed consultation and interaction with local inhabitants and their representatives. It also requires the development of a relationship where both sides are able to build trust and candidly discuss the projects that will benefit the local populace, not just those benefiting local officials. These projects will normally be significant in their scale and scope, for example, the wide-scale construction of schools, roads, or healthcare facilities. The duration of these projects will probably take a fairly long time and should involve significant contributions from local contractors.

Consultation with local officials and other interested parties will be a critical aspect of prioritizing the reconstruction projects. It is worth establishing a formal mechanism, involving all stakeholders, to facilitate community and government consultation. This interaction should include regular meetings with officials and local inhabitants to work out the details of individual projects, ensuring that what will be delivered is what the locals need.

It is also worth considering the adoption of a minimum level of local labor content for every contract signed with local construction companies. The threefold aim of such a plan is to keep locals employed in constructive endeavors, foster the transfer of work skills, and inject money into the local economy.⁹ To enhance employment opportunities for local people, a benchmark percentage of local labor should be set for every project. This can be reinforced by making it a contractual obligation. When contractors fail to meet this benchmark, they should not be allowed onto worksites. If contractors identify during the tendering process that the technical nature of a project would prevent them reaching this minimum level of local labor involvement, that fact should be part of the contract negotiations.

Bottom-up reconstruction requires detailed consultation with local officials, not just at the provincial level but at the community level. Once again, the quality of this interaction with community leaders depends on the trust that is established with the various military elements. The importance of these bottom-up operations is twofold. First, they provide an immediate and tangible justification for the presence of foreign military forces. If local people see immediate benefits resultant of this presence, they are less likely to provide support to insurgents. The second advantage of this type of project (also known as quick-impact projects) is that they provide time and space for the completion of the larger scale—and longer duration—reconstruction projects in the top-down category.

Building Capacity

The second part of this conceptual model for military-led reconstruction operations is a dual focus on physical and intellectual (capacity-building) reconstruction.¹⁰ As impressive as new hospitals, clinics, schools, bridges, and other infrastructure may be, the capacity of local people to staff this infrastructure and maintain it in the long-term is of overwhelming importance. Consequently, reconstruction operations need to undertake capacity-building—military and civilian training and education—as a foundation for the entry of a broader range of government agencies to assume these functions once the security situation permits.¹¹ It should be emphasized, however, that capacity-building cannot wait until other government agencies are totally mobilized—these actions should be undertaken from the beginning of any military operation. This will ensure, once again, the local populace will see a tangible benefit from the presence of military forces. It should also ensure that those that may be tempted to support any insurgents have other options.

A consistent theme in the approach of government and nongovernmental organizations to nation-building is capacity-building. The significant contribution this type of activity may provide is often underappreciated. Training in basic trade courses can also be undertaken by military units. Not only will this contribute to increased basic skills among the local youth, it can also play an important role in information operations. Mentoring of local officials by experts (military or contractor) should also be undertaken. Selective recruiting or contracting of experienced experts in such areas as education, economics, and municipal planning and administration may significantly improve the capacity of the local populace to improve civil infrastructure. Investing in basic capacity-building activities enhances the ability of the local population to play a positive role in the reconstruction of infrastructure and communities.

A critical element of this strategy requires support to capacity-building enablers. A logical step is to combine physical construction with indigenous capacity-building through the development of educational infrastructure. The construction of infrastructure such as schools to train the military, healthcare professionals, and police training centers is an example. If this training is reinforced through the partnering of military, police, and government organizations with friendly military forces from the sponsoring countries, the training is likely to be more enduring.

By overlaying these two approaches, a simple but durable military concept for guiding the conduct of reconstruction operations is enabled. Such an approach ensures that reconstruction projects not only have an immediate impact, but capacity-building that may be incorporated into each project ensures a whole of life approach for the maintenance, training, and development of management skills by government officials.

Complex Environments and Intelligence

The human dimension is the most significant aspect of the environments in which reconstruction operations will be conducted. While physical surroundings will often be demanding, it is the people that will drive the complexity of the situation in which reconstruction operations take place. Appreciating and understanding the human environment is an essential part of reconstruction operations. This critical step ensures that reconstruction is undertaken in support of the right people at the right place and time. The precision and discrimination that such actions imply is every bit as important as that required in the conduct of kinetic operations.

A range of friction points will be present in any area in which reconstruction operations are conducted. The most obvious is the presence of insurgents and their support base. Obviously, the role of reconstruction forces is not to directly target these insurgents. Information gleaned during the conduct of projects will contribute to the overall understanding of the insurgent's operations and patterns. If necessary, information gained during the conduct of reconstruction activities may be used by combat forces to directly target insurgents.

In many regions, intertribal rivalry is likely to be present. These rivalries may require a conscious effort to ensure that reconstruction support is evenly divided among various groups avoiding any accusations of favoritism. A perceived lack of equity harms the credibility, along with the force protection, of forces executing these operations. A formal and transparent process for the prioritization of reconstruction activities is a critical enabler for operations and will assist in enhancing the local populace's support of military forces.

By their very nature reconstruction operations take place in disrupted societies, impacted by some form of internal conflict. This conflict adds another level of complexity to understanding the overall security environment. Other sources of conflict might include political differences, the role played by individuals in previous conflicts, and local religious and ethnic codes of conduct (such as *Pashtunwali* in eastern and southern Afghanistan).¹² Another factor adding to the level of complexity may be poor governance as a result of corruption and illiteracy on the part of local officials.

A montage of ethnic and tribal affiliations, political allegiances, and government agencies, as well as local and foreign forces, present those conducting reconstruction operations with a myriad of challenges. Sources of conflict will never be clear-cut and linkages between various actors are not always apparent. As a result, one of the elements of any concept of operations for reconstruction is the requirement for intelligence. Understanding the complex interrelationship between family, tribal, and political loyalties will be a significant undertaking, but absolutely

essential in ensuring the conduct of the right project for the right people at the right place and at the right time. This emphasis on intelligence will also assist in formulating the proper level of force protection for those involved in reconstruction operations.

From the start of predeployment planning and throughout the conduct of operations, the development and updating of a “human map” of the area of operations needs to be one of the highest intelligence priorities. While knowledge of the enemy’s order of battle is an important part of force protection, development of a societal order of battle is of greater importance for the conduct of reconstruction operations.¹³ This understanding of the local populace provides a view of the most influential people and groups, along with their relationships and interactions. When underpinned by an adaptive system theory that contains a continually updated human map, commanders and their staffs are able to gain insight into the dynamics of the local population and assess the influence of different actors supporting reconstruction projects.

Human intelligence (HUMINT) operations are the force multiplier for these operations.¹⁴ If reconstruction forces are to have any chance of executing the right project at the right place and time, while ensuring robust force protection measures, HUMINT needs to be effectively employed. While a dedicated, integral capability may be present, the most important HUMINT asset is the eyes and ears of the personnel involved in the project. Military personnel need to constantly interact with the local populace. Such interaction provides invaluable opportunities to gain insight into the local situation and priorities, as well as to pass on messaging in support of information operations.

The integration of intelligence in reconstruction operations provides one of the most effective methods of conducting such operations. It ensures that projects are conducted where and when they are needed. It ensures that deployments to small villages for community projects (bottom-up) support the right people. Intelligence needs to be gleaned from the lowest levels of interactions and disseminated throughout the chain of command. If the conduct of counterinsurgency operations, and therefore reconstruction operations, relies on the strategic corporals and privates, those corporals and privates need to have access to accurate and timely intelligence.

Measuring Success

To enhance the chance of successfully influencing a target society, reconstruction operations need to be part of the planning for the overall military and interagency counterinsurgency effort. Reconstruction will be a principal line of effort (or line of operations). Objectives need to be clearly described and synchronized with other lines of effort. These objectives should explain the level and type of influence that military-led reconstruction operations are seeking. The chosen approach has to be flexible enough so that as the situation evolves and the understanding of local requirements improves, objectives can be adapted.

Simple measures of effectiveness (MOE) to ascertain progress, or lack thereof, will also be required. Not only will this provide a snapshot of whether objectives are being met, but it will indicate the level of success of the reconstruction forces in adapting to the environment. These MOE should use both quantitative and qualitative measures to provide indicators of success and a sense of where military forces are on the road to accomplishing specified goals. MOEs are also valuable in reviewing whether goals are still relevant in an evolving environment.

The use of MOE for military operations is not new. They have, however, traditionally been used to measure success in conventional operations and have focused primarily on aspects related to

the qualitative aspects of physical destruction. MOE for reconstruction operations need to focus more on human terrain issues, the environment, or the affected society as a whole. Effectiveness in areas such as legitimacy, permissiveness, indigenous capacity, and sustainability may also form part of the MOE, dependent upon the operational situation.¹⁵

Selling Reconstruction

Beyond the successful accomplishment of the goals and objectives associated with a particular reconstruction operation is the requirement to have the project viewed as a success by a majority of the population. Advocacy will be an important component of these reconstruction operations and should focus on a wide variety of audiences. Consequently, a robust information operations plan, emphasizing strategic communication, should be interwoven with every reconstruction activity.¹⁶ There are a number of possible target audiences. One of the most important is the local populace. This effort will involve carefully shaped messaging through media outlets and by direct interaction with the local population and government. Another possible target will be the national government (if it exists) of the nation in which the reconstruction operations are conducted. Finally, and of significant importance, is the audience of the nation supporting the reconstruction operations. It is imperative that they are kept informed of what their military is doing. Other audiences may include the greater military, government, nongovernmental organizations, and allies.

Influencing the local population is an integral part of any reconstruction operation. The goals of such activities are to cultivate a positive image of military forces among the local populace. In the conduct of reconstruction operations, every action will have some impact on how local people perceive the military. In many of the communities where reconstruction is conducted, there is often cynicism regarding the ability and motivations of the military. For this reason alone, it is imperative that the local populace be informed regarding infrastructure development and capacity-building.

Expectation management is also an important part of implementing any information operations plan in support of reconstruction operations. Promises should be kept to a minimum, and only those that have a reasonable expectation of being kept should be made. The local population should be kept informed so that its expectations during the initial phase of reconstruction—which will primarily be an information-gathering phase—do not exceed the reality of the situation. This will require continued consultation and engagement with the local populace and government leaders. The engagement will provide those participating in the reconstruction operation with a more informed view of requirements and how best to meet them.

The conduct of quick-impact projects in the initial stages can assist in expectation management. Large-scale projects, because of design and contracting requirements, often take additional time to execute. Therefore, it is often possible to fill this void by executing small-scale reconstruction tasks while waiting for larger projects to come online. In the disrupted societies where reconstruction operations take place, actions are always more appreciated than grandiose promises. Forces performing reconstruction operations need to gain and maintain credibility with the local populace. Making promises that have little chance of realization is a sure way to lose credibility, and regaining it often proves quite difficult. An enduring theme of reconstruction operations should be to promise only what can be delivered and deliver on everything that is promised.

An important part of molding the thoughts and expectations of the various audiences is the constant reminder of the long-term nature of projects. Western publics are generally impatient for results in military campaigns. A central tenet of any public awareness campaign directed at home audiences is the message that reconstruction operations may take time, but the return in the longer term will be significant.

Forces undertaking reconstruction operations will be locked in a constant battle with the adversary to shape the perceptions of local inhabitants, the global media, and audiences in the supporting countries. Insurgent and terrorist organizations recognize the importance of shaping a range of differing audiences. Ten years ago the Taliban did not permit the use of various media.¹⁷ Now it is highly adept at exploiting the various forms of media for its purposes in Afghanistan and around the world.¹⁸ Al Qaeda and other organizations have demonstrated a sophisticated capacity to produce and disseminate their messages to local and global audiences.¹⁹ They understand how to effectively exploit the modern media (especially the Internet) as well as maintaining their proficiency in the age-old methods, such as intimidation through the use of night letters and disinformation campaigns.

Insurgents have the advantage in shaping the information environment. While coalition forces are morally bound to the truth in their efforts to maintain legitimacy, the insurgent is able to make any number of outrageous claims about the actions of coalition forces and nascent indigenous governments. The insurgents are likely to implement a simple yet effective information operation that seeks to separate the local population from the efforts of the military. The insurgents constantly inform the media regarding incidents (true or fabricated) of coalition forces inflicting casualties on the local population; this technique is especially effective with the home audiences of the nations supporting these operations.

Interdepartmental and Interagency Contributions

Many western governments have determined that there are a number of inherent security issues that require a whole government approach in an effort to harness the key strengths of various agencies. The United States and United Kingdom refer to this requirement as “networked government” and “joined-up government.”²⁰ Both nations have a similar approach regarding the majority of normal day-to-day business; a single department or agency approach is usually sufficient to meet these daily needs. For more challenging problems, however, an interagency approach is necessary.²¹ Such is the case in the conduct of a counterinsurgency campaign.²² Military-led reconstruction organizations need to be composed of personnel from various government departments at the commencement of operations. Other agency players should be seen as an integral part of any reconstruction team. These contributors need to be an integral part of the planning phase, as well as during execution, in an effort to provide the broadest professional advice to military commanders. These agency representatives also ensure initial military reconstruction operations do not compromise subsequent civilian reconstruction activities.

An alternative approach is to include military personnel who have previously had assignments with other government departments. This would necessitate greater interaction between the military and the various government departments. It would also require the reallocation of additional military personnel to these assignments. The development of informal networks between military and civilian personnel would certainly be enhanced, adding markedly to the planning and execution of reconstruction missions.²³

A critical role that agencies may play is facilitating the gradual integration of a greater number of nongovernmental organizations (NGOs), as reconstruction operations transition from military to civilian. In many respects, the continuity in counterinsurgency operations (from initial military to evolving civilian reconstruction) will be provided by the representatives from these agencies.

Reconstruction and Nongovernmental Organizations

By necessity, military-led reconstruction operations have spilled over into what was traditionally the domain of nongovernmental organizations.²⁴ This is not a deliberate attempt to seize additional responsibility by the militaries conducting these operations, but a pragmatic realization that regardless of the security situation, the local population requires rapid humanitarian and reconstruction assistance. Some NGOs accept the security umbrella provided by the military, while others refuse to cooperate based on their organizational culture or fear of reprisal. While this reticence to working with the military is based on a range of factors, nongovernmental organizations will need to reexamine their cultures and relationships with the military if they are to be effective in rebuilding societies impacted by insurgencies.²⁵ The military and NGOs both possess unique capabilities. Not only do they need to cooperate more closely in future operations, but there needs to be formal agreements related to enhanced planning and cooperation.

Just as military forces have transitioned away from their aversion to peacekeeping and stability operations, so too nongovernmental organizations will have to adapt to the demands associated with a dynamic security and humanitarian assistance environment. NGOs have the skills and resources critical to the successful conduct of military-led reconstruction operations. The need for humanitarian aid and reconstruction operations during and immediately following kinetic operations demands greater participation by NGOs in support of the military reconstruction efforts.²⁶

Conclusion

Military-led reconstruction operations play a key role in a cohesive (national) approach to the conduct of successful counterinsurgency operations. Such an approach requires the precise, discriminate application of nonkinetic effects in support of a unified campaign plan. The conduct of reconstruction operations does not negate the requirement for robust combat forces. Kinetic operations, however, play a supporting role in population-centric, counterinsurgency warfare. The ability of the counterinsurgent to achieve the proper balance between precise, discriminate kinetic and nonkinetic actions will have a major impact on how successfully local populations are influenced.

Ensuring military reconstruction operations are based on sound intelligence is one key to success. The integration of intelligence ensures precision; that projects are conducted where and when they are needed. It also provides discrimination; that deployments to small villages for community projects are supporting the right people while negating any bias toward a particular ethnic or tribal group. Likewise, the synchronization of reconstruction operations with NGOs and other government agencies will play a central role in the success of these operations.

The military's involvement in reconstruction operations, and the manner in which they are conducted, provide a highly capable, complementary function to the array of kinetic means currently employed in Afghanistan, Iraq, and other areas. The mix of construction and internal security is a powerful combination capable of supporting the conduct of kinetic activities in a counterinsurgency environment. Every insurgency is unique; however, military-led reconstruction operations do provide the counterinsurgent with a powerful tool to shift support

of the populace away from insurgents. Possessing the ability to destroy the enemy and make them irrelevant to the population through reconstruction operations is a powerful tool in any synchronized counterinsurgency strategy.

Notes

1. This is examined in greater detail in Ian Wing, *Refocusing Concepts of Security: The Convergence of Military and Non-military Tasks*, Land Warfare Studies Centre, Working Paper No. 111, Australian Army, November 2000.
2. James Dobbins, et al., *The Beginner's Guide to Nation Building* (Santa Monica, Calif.: RAND, 2007), vi.
3. This reflects the practice of “armed civil affairs” as described by David Kilcullen in “Twenty-Eight Articles: Fundamentals of Company-Level Counterinsurgency,” *Military Review*, 86 (May-June 2006), 107.
4. This reconstruction encompasses both physical and intellectual reconstruction.
5. According to the Brookings Institution's *Iraq Index*, 491 non-Iraqi contractors were killed in Iraq over the period May 2003 to July 2007. Source: *Iraq Index: Tracking Variables of Reconstruction and Security in Post-Saddam Iraq*, Brookings Institution, 30 July 2007, <http://www.brookings.edu/fp/saban/iraq/index20070730.pdf>, 22.
6. These challenges are examined in detail in Michael R. Melillo, “Outfitting a Big-War Military with Small-War Capabilities,” *Parameters*, 36 (Autumn 2006), 22-35.
7. “The outcome of future conflicts will increasingly be decided in the minds of . . . populations rather than on the battlefield.” Australian Army, *Adaptive Campaigning*, November 2006, 2.
8. This has a range of implications, including organizational, requiring task-organized units to be formed around specific reconstruction missions. For example, the Reconstruction Task Force deployed by the Australian Army to southern Afghanistan in 2006 comprised a battalion headquarters (including an engineer works section and robust intelligence collection capability), engineer company, infantry company, cavalry platoon, and logistics company.
9. The inclusion of an economist to assess the flow-on effects should be considered to ensure that unsustainable false-economies are not created.
10. Capacity-building is a consistent theme in the approach of various government and nongovernment aid organizations. Andrew Natsios also lists capacity-building as one of the nine principles of reconstruction in “The Nine Principles of Reconstruction and Development,” *Parameters*, 35 (Autumn 2005), 4-20.
11. The US *PRT Playbook: Tactics, Techniques, and Procedures* lists capacity-building as one of the guiding principals of PRTs (Fort Leavenworth, Kans.: Center for Army Lessons Learned, September 2007), 11.
12. *Pashtunwali* is an ancient code of conduct that governs the behavior of Afghan people of Pashtun ethnicity. Its principal components are hospitality, revenge, bravery, defending honor, and defending females.

13. The essential role of this knowledge, often described as cultural awareness, has been discussed in a wide variety of publications since 2001. David Petraeus has described cultural awareness as a force multiplier in “Learning Counterinsurgency: Observations from Soldering in Iraq,” *Military Review*, 86 (January-February 2006), 8.

14. Ralph O. Baker has called HUMINT the decisive components of strategy in “HUMINT-Centric Operations: Developing Actionable Intelligence in the Urban Counterinsurgency Environment,” *Military Review*, 87 (March-April 2007), 21. This is also supported by the author’s experience and observations as a task force commanding officer in southern Afghanistan in 2006-2007.

15. For a more comprehensive examination of the requirement for measures of effectiveness in counterinsurgency see James Clancy and Chuck Crossett, “Measuring Effectiveness in Irregular Warfare,” *Parameters*, 37 (Summer 2007), 88-100.

16. A recent RAND Corporation report (sponsored by US Joint Forces Command) discusses in detail the conduct of shaping opinion in counterinsurgency. Todd C. Helmus, Christopher Paul, and Russell W. Glenn, *Enlisting Madison Avenue: The Marketing Approach to Earning Popular Support in Theaters of Operation* (Santa Monica, Calif.: RAND, 2007).

17. A 1996 Taliban decree banned the broadcast of music by “public information sources.” The same decree banned playing of music and dances at wedding parties. Decree announced by General Presidency of Amir Bil Maruf, Kabul, December 1996. Contained in Ahmed Rashid, *Taliban: Militant Islam, Oil, and Fundamentalism in Central Asia* (New Haven, Conn.: Yale Univ. Press, 2000), 218-19.

18. One Taliban-affiliated Website is www.Alemarah.r8.org. This site posts news about the Taliban struggle in Afghanistan and other jihadist information.

19. See Shane Drennan and Andrew Black, “Jihad Online: The Changing Role of the Internet,” *Jane’s Intelligence Review*, August 2007, 16-20.

20. For example, the UK Government report in 2000, *Wiring It up*, discusses the concepts of joined-up government and interdepartmental cross cutting. *Wiring It up: Whitehall’s Management of Cross-cutting Policies and Services* (London: The Stationery Office, January 2000).

21. In the Australian context, this is known as the National Effects Based Approach. Australian Defense Force, *Joint Operations for the 21st Century*, 2007, 11.

22. The recent US Army-US Marine Corps doctrinal publication, *Counterinsurgency*, discusses in detail the need to integrate the activities of military and civilian agencies. (Department of the Army, *Field Manual 3-24: Counterinsurgency*, December 2006). The Australian Army’s *Adaptive Campaigning* describes the land force contribution to a military theater as part of a whole of government campaign. Australian Army, *Adaptive Campaigning*, November 2006, 3.

23. The author acknowledges the work of Dr. Gordon Rudd, US Marine Corps School of Advanced Warfighting, in suggesting and advocating this approach.

24. For an examination of the convergence of traditional military and nonmilitary, and the redefining of the term “security,” see Wing.

25. The tensions that arise between nongovernmental organizations and the military can arise because of different mandates and different modes of operating. Donna Winslow, “Strange Bedfellows in Humanitarian Crises: NGOs and the Military,” in Natalie Mychajlyszyn and Timothy M. Shaw, eds. *Twisting Arms and Flexing Muscles: Humanitarian Intervention and Peacebuilding in Perspective* (Brookfield, Vt.: Ashgate Publishing Limited, 2005), 118.

26. The importance of close cooperation between NGOs and the military is examined in Natsios, 14-15.

Lieutenant Colonel Mick Ryan is the Commanding Officer of the 1st Combat Engineer Regiment, Australian Army. From August 2006 until April 2007 he commanded the Australian 1st Reconstruction Task Force in Uruzgan Province, southern Afghanistan. In 2005 he served as the Deputy-J3 at the Multi-National Security Transition Command-Iraq. Lieutenant Colonel Ryan is a graduate of the US Marine Corps Command and Staff College and School of Advanced Warfighting.

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Preparing for Economics in Stability Operations

**Lieutenant Colonel David A. Anderson, U.S. Marine Corps, Retired,
and Lieutenant Colonel Andrew Wallen, U.S. Air Force**

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Stability operations have played a significant role in U.S. foreign policy since the 1800s, and the 2006 National Security Strategy (NSS) reiterated their importance to current U.S. global interests. During such operations, actions to spur economic development are as important as military actions. The U.S., however, despite history and the NSS, still has no formal political or military structure tasked with facilitating the planning and execution of economic-development programs in stability operations. Instead, it has tried to make do with ad hoc arrangements planned and executed by the military.

Lessons learned from current stability operations point to the benefits of using a broad strategy that structurally integrates planning for governance, economics, and security. In testimony to Congress about the inadequate planning for stability operations in Iraq, Air Force Chief of Staff General John Jumper said the solution “calls for an *interagency, deliberate planning process* much like the deliberate planning process we have in the military, where formal assignments are made within the interagency to get upfront commitment to what the post-major combat operations requirements will be.”¹ Past stability operations, too, suggest that a coordinated interagency effort and a deliberate process would have produced faster progress in Iraq. By examining some of those operations, we can discern the significance that economics has for post-kinetic operations, as well as its implications for cooperative interagency processes in general.

Historical Examples

The 1948-1960 British campaign in Malaysia underscored the importance of economics to counterinsurgency (COIN) as well as the need for a coordinated economic plan within stability operations. In writing about the campaign, British COIN expert Sir Robert Thompson identified three forces influencing the Malaysian population: nationalism, religion and culture, and economic well-being.² Of the three, he gave primacy to economic well-being, stating that “however powerful nationalist or religious forces may be, that of material well-being is as strong if not stronger.”³ Thompson also claimed that an insurgency needs an issue it can exploit to open up a seam between the people and the government, and economic inequality, either perceived or real, is one such issue. To combat an insurgency seeking to exploit economic inequality, then, requires a broad strategy that incorporates the various elements of civilian society equipped to address the problem and thereby influence the population.⁴

We can glean additional information about the role of economics in stability operations by looking at two U.S.-led missions generally considered successes: the reconstruction efforts in Japan and Germany after World War II. In both cases, the United States clearly understood how important economic development was to the recovery and democratization of its former enemies. Leaders even went beyond executive authority, the doctrinal norm prior to World War II, to establish economic policy. These cases represent successes in overcoming institutional structural deficiencies.

In Japan, State War Navy Coordinating Committee memorandum 150/4, *Politico-Military Problems in the Far East: United States Initial Post-Defeat Policy Relating to Japan*, gave General Douglas MacArthur this guidance:

Those forms of economic activity, organization and leadership shall be favored that are deemed likely to strengthen the peaceful disposition of the Japanese people, and to make it difficult to command or direct economic activity in support of military ends. To this end it shall be the policy of the Supreme Commander: (a) To prohibit the retention in or selection for places of importance in the economic field of individuals who do not direct future Japanese economic effort solely towards peaceful ends; and (b) To favor a program for the dissolution of the large industrial and banking combinations which have exercised control of a great part of Japan's trade and industry.⁵

The U.S. employed economic measures to demilitarize Japan; however, economic policies and actions were not limited to military affairs. MacArthur understood the vital relationship between politics, economics, security, and stability. Concerned that the Japanese would not accept his democratic reforms because of desperate economic conditions at the time, he dispensed surplus military rations to the people and sent a telegram to Congress, urging it to “send me food or send me bullets.” Congress chose food, appropriating \$250 million worth of subsistence products to aid the Japanese, many of whom were without adequate housing and approaching starvation.⁶ This economic aid played a major role in establishing an environment favorable to MacArthur's democratization program.

In Germany, conflicting policies complicated economic recovery. General Lucius Clay, deputy military governor of Germany after World War II, complained that JCS-1067, *Directive to Commander-in-Chief of United States Forces of Occupation Regarding the Military Government of Germany*, was “extremely difficult to operate under.”⁷ Clay explained that “if you followed [the directive] literally you couldn't have done anything to restore the German economy . . . When we were ordered to put in a currency reform, this was in direct contravention of a provision of JCS-1067 that prohibited us from doing anything to improve the German economy.”⁸ Realizing that economic revitalization would play a significant role in Germany's peaceful rehabilitation, Clay worked in a piecemeal fashion to circumvent JCS-1067's strict provisions.

Even as Clay labored to overcome JCS-1067, Germany's recovery was hampered by the fact that multiple nations had a hand in determining its economic policy, and they did not agree on how to proceed. France and the Soviet Union worked at cross-purposes with America and Britain, demanding reparations while the latter two were trying to build a self-sustaining German economy. In *America's Role in Nation-building from Germany to Iraq*, James Dobbins describes the situation:

The U.S. government forced German mines to deliver coal to France and other nearby states for free. In return, the U.S. zonal authorities provided miners with food and wages. In addition, the Soviet Union dismantled German plants in both the British and U.S. zones and shipped the equipment back to the Soviet Union as part of reparations. Thus, some of what was given was taken away by other governments.⁹

In short, Germany's case highlights many of the difficulties inherent in economic reconstruction. The absence of established doctrine and standing institutions designed specifically for planning, coordinating, and executing economic actions created confusion and inefficiencies that unnecessarily hindered the nation-building effort.

While individual initiative eventually overcame systemic problems in Germany and Japan, U.S. stability operations in Haiti (1915 to 1934, 1994 to 1996, and 2004) have consistently failed, revealing the ultimate costs of not having a well-integrated economic plan. Although the 1994 Haiti mission achieved some of its goals, such as restoration of the Aristide government, it did not address long-term economic and governance problems; consequently, Haiti is still in turmoil today.¹⁰

The examples of Japan, Germany, and Haiti validate Thompson's claim about the importance of a "systems approach" in stability operations. Institutions planning and executing economic operations within a stability operation should view an unstable nation as a system wherein failing to act in one area will cause ripples in other areas. Intervening forces cannot reform governance, economics, and security independently of one another. These functions are interdependent.

Iraq: Economics and the "Golden Hour"

The relationship between economics and stability has not been lost on U.S. commanders in Iraq. In 2004, when Task Force Baghdad analyzed attacks in its area of operations, it found "a direct correlation existed [among] the level of local infrastructure status, unemployment figures, and attacks on U.S. soldiers."¹¹ Putting this analysis into practice, the task force consolidated funding in economic development projects where they believed the payoff would be greatest. After doing so, it confirmed "a direct correlation emerged between funding, when it became available to employ Sadr City residents . . . and a steep decline in the number of terrorist incidents occurring in the same area."¹²

As events in Iraq have also shown, it's not just the money that matters, but the speed with which it is disbursed. A victorious invading nation—assuming its mission is benevolent—has a "golden hour," a limited amount of time in which it enjoys host-nation popular support and international legitimacy.¹³ If it fails to provide immediate and sufficient economic support to begin stabilizing and rebuilding the host nation within that time, people will turn against it and the conflict will go on. Any delay in stabilizing the situation beyond the golden hour will threaten the quality of eventual success and may even make progress in stability operations impossible.

Rajiv Chandrasekaran, the *Washington Post*'s former Baghdad bureau chief and author of *Imperial Life in the Emerald City*, has observed that in Iraq it took too long to mobilize the resources required to demonstrate the U.S.'s commitment to reconstruction. Failure to move speedily led to disenchantment and frustration, hindering progress and setting the stage for insurgency. As has often been the case in interventions, during the golden hour in Baghdad the military was the only government agency with significant resources in-country. It had to act swiftly to gain the populace's confidence and secure the economic initiative; history shows that it did not. The military, however, should not be expected to go it alone during the golden hour. The best way to achieve stability quickly is to have and employ a formal, institutionalized structure with built-in interagency capacity and cooperation.

The Way Ahead

The United States should establish and maintain a standing institution that focuses on economic development during stability operations, one capable of taking immediate action during the golden hour of future contingencies. Such a capability should be permanent, functioning in peace as well as war. Senior staff must develop training and doctrine and integrate this capability into doctrinal stability operations. U.S. government institutions, however, do not appear to be building a sufficient, let alone robust, capability to do this. For example, the State Department's Active Response Corps (ARC), first responders who support U.S. missions, engage with host-nation governments, coordinate with international partners, and assess stabilization and reconstruction efforts, employ only 30 personnel worldwide. Given the nations, coalition partners, and international organizations (e.g., the World Bank Group: International Development Association, International Bank for Reconstruction and Development, International Finance Corporation; United Nations agencies; and the World Trade Organization) with which the State Department will have to coordinate, ARC's personnel requirements are closer to 1,500 than 30.

Start-up funding. President Bush's 2005 emergency supplemental funding request included \$17 million for the State Department Office of the Coordinator for Reconstruction and Stabilization (S/CRS). Congress approved \$7 million.¹⁴ Unfortunately, S/CRS fared no better in 2006. The president requested \$24 million for S/CRS operating expenses and \$100 million for a conflict response fund. He received nothing.¹⁵ Congress did, however, approve an amendment to the Defense Appropriation Bill allowing the Department of Defense (DOD) to transfer up to \$200 million to the State Department for S/CRS.¹⁶

Unity of command. For economic-development activities in stability operations, unity of command is as important as unity of effort. Unity of command should not threaten any government agency's independence: only a dedicated portion of each agency in direct support of stability operations should ever come under the authority of a unified commander. Under these circumstances, an enforcement mechanism would probably be necessary to compel agencies to attach competent people to centralized commanders or directors. While National Security Policy Directive-44 (NSPD-44) recognizes the need for interagency integration, it does not enforce unity of command. The executive branch should follow-up NSPD-44 with a presidential-level document requiring unity of command in areas undergoing stability operations. In doing so, it should dictate the various government agencies' roles and responsibilities as well as the conditions under which any particular agency should assume overall direction.

Planning for economic operations. Prior to the onset of a stability operation, the primary players ought to be able to plan economic operations in an integrated fashion. USAID has realized the need to engage in deliberate and crisis-action planning and to send representatives to the military's unified commands to do so. Since the military is currently the primary organization developing these types of detailed plans, USAID's efforts are right on target. NSPD-44 directs the State Department to coordinate planning for stability operations. As such, S/CRS should aggregate the personnel requirements for such planning and secure funding through Congress as a single program. In addition, S/CRS should organize and lead civilian planning cells within military commands engaged in building deliberate and crisis-action plans.

While economic planning should involve both Soldiers and civilians, there will be times during execution, especially in the golden hour, when civilian agencies will likely not be part of stability operations. Since the military may be the only organization in-country, it must understand economic development. The military should therefore retain reserve personnel with specialties in economics and commerce and increase the number of active-duty personnel capable of

planning and executing economic operations. While this enhanced military capability would duplicate that found in civilian agencies, it would also ensure that economic development could begin before the civilian agencies arrived in-country. The Army civil affairs career field should retain economic and commerce capabilities at brigade and higher with enough force strength to supplement subordinate units when necessary. (Unfortunately, the civil affairs proponent has recently proposed reducing this specialty as part of an overall restructuring.) The civil affairs community should also assign active-duty personnel to act as advocates for economic development. These personnel would be able to—

- Facilitate continuity of purpose in developing and executing economic-development policy within the military.
- Coordinate active-duty and reserve personnel and assets for economic development.
- Liaise with other government agencies to ensure greater unity of effort in ongoing interagency doctrine development and training.

Training military personnel. DOD should expand the military financial career fields' training and duties to include economic development. By training financial personnel to be economic developers and by rotating them to government agencies (like USAID) with expertise in economic development, the Army can create a corps of professionals to assume the reins during the golden hour. This expansion of duties would give commanders more—and more convenient—resources with which to solve economic development challenges. Military economic-development specialists could help units prepare for stability operations by injecting relevant experience into exercises and unique insights into the decision-making process.

Personnel whose duties have economic consequences, such as engineers and contracting officers, should also receive some training in economic development. Such training could help them anticipate the economic consequences their decisions might have during stability operations.

Interagency cooperation. In addition to making their personnel available during the golden hour, civilian agencies should have organic, deployable staffs to provide a capable and persistent presence during post-conflict stability operations. S/CRS estimates that it needs 3,000 additional personnel to meet such a requirement.¹⁷ That's not a lot when you consider that DOD's end-strength is close to three million.

Civilians tasked to work with the military have to be capable of working with service personnel. They should therefore receive some form of professional military education. In 2006, the State Department sent three personnel to the U.S. Army Command and General Staff College, where students learn how the Army operates in the joint-interagency world. More should follow. Other interagency personnel could attend shorter courses designed to familiarize them with the military and such topics as its problem-solving methods. One educational venue might involve participation in a U.S. military joint and combined exercise.

Flexible funds. Commanders should have access to a variety of monetary instruments during stability operations, so they can spend money where it needs to be spent. For instance, they should be allowed to spend appropriated funds for stipulated purposes that directly contribute to reconstruction and development; that is to say, there should be no “funding fences” that restrict a leader's ability to respond to the evolving environment in his area of responsibility. This level of fiscal freedom would not mean that commanders could dispense funds without constraint: as for every other appropriation it makes, Congress would set criteria that specifically address how

funds could and could not be spent in stability operations. Furthermore, funding strictly tied to the in-theater ground portion of a stability operation should flow through the unified leader to the sub-organizations or units responsible for executing reconstruction and development. That will ensure at least some accountability.

Intelligence gathering. During the initial stages of an operation, units should look for economic intelligence that might assist in initiating and executing needed development. For Iraq, there are currently several sources from which to gather information on a local economy in a given area. One is the Department of Commerce website, which includes such things as the *Business Guide to Iraq*, the *Overview of Key Industries in Iraq*, and country commercial guides. Another source is USAID, which has economic intelligence about many of the 100 nations in which it maintains a presence. We should collect these points of contact and other economic intelligence resources at a centralized repository we can quickly access, so that government agencies engaged in economic development can share information quickly and efficiently.

Center for economic education. America should establish a center responsible for formulating and promulgating training and doctrine related to economic development and reconstruction. The two missions ought to comprise a well-defined subset of a larger stability operations curriculum. This center could—

- Develop a common terminology and format for communication.
- Offer a broad series of training opportunities that would enhance the capabilities of all government agencies involved in economic development and reconstruction.
- Offer a certification program keyed to levels of training. (Each agency would aim to have a certain number of personnel certified at each level.)
- Formulate doctrine that gives authoritative (but not restrictive) guidance, so that agencies performing economic development have a common foundation from which to proceed. Some critical issues to sort out in doctrine are common procedures, roles and responsibilities, resources and skill sets needed, and authorities required (such as warrants for personnel contracting on behalf of the U.S. government).

This center might be located at the National Defense University, the Naval Postgraduate School, or a similar school site. One of these institutions could become a hub of activity interfacing with other institutions, both government and non-government, to ensure economic training, doctrine, and research is as advanced as possible

Conclusion

America should develop formal economic capabilities now to improve support to future stability operations. It needs to create a well-staffed and funded organization that can act in concert with interagency efforts to develop and pursue economic objectives in support of a given operation's overall objectives. Absent such coordinated support, the execution of economic missions during the initial stages of stability operations will remain ad hoc, and any positive outcomes will be short-lived. In developing an appropriate institutional structure to address economic development issues, the U.S. government must particularly consider the needs of a stability operation at its most critical time, during the golden hour. Taken today, in the early hours of the War on Terror, such steps could set the stage for long-term success tomorrow. **MR**

Lieutenant Colonel David A. Anderson, U.S. Marine Corps, retired, is an associate professor in the Department of Joint, Interagency, and Multinational Operations at the U.S. Army Command and General Staff College, Fort Leavenworth, Kansas. He holds a B.S. from the University of Wisconsin-River Falls, an M.A. from Webster University, and a Ph.D. in international business and economics from Alliant International University. While on active duty, LTC Anderson served in command and staff positions in the continental United States, Europe, and the Asian Pacific.

Lieutenant Colonel Andrew Wallen, U.S. Air Force, currently serves as senior financial analyst for Headquarters, Air Mobility Command, Scott Air Force Base, Illinois. He holds an M.M.A.S. from the U.S. Army Command and General Staff College, an M.A. in economics from Central Missouri State University, and dual bachelor degrees from Virginia Tech. LTC Wallen has served in a variety of command and staff positions in the United States, Japan, and Iraq.

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Lessons Learned About Economic Governance in War Torn Economies From the Marshall Plan to the Reconstruction of Iraq

Stephen Lewarne and David Snelbecker

United states Agency for International Development, February 2006

Abstract

This brief summarizes a much more detailed report authored by Stephen Lewarne and David Snelbecker. It analyzes eight case studies of U.S.-supported economic governance projects for war torn countries between 1948 and 2004—their successes and failures, lessons learned, and their implications for the future design of similar projects. In addition to programs applied to Germany and Japan after World War II, the paper reviews economic governance programs in Bosnia, Kosovo, East Timor, Sierra Leone, Afghanistan, and Iraq. The authors conclude with 26 lessons relating to economic governance programs for postwar economies. The first 13 address general lessons on the importance of preparedness and effective planning; private-sector-led growth; security; sound economic data; sequencing; and other issues. The second 13 lessons are concerned with basic pillars of sound economic governance: macroeconomic and financial stability; exchange rate and inflation policy; good budget execution and balanced and efficient fiscal and tax policies; robust legal and regulatory regimes; equitable social policy; and appropriate sectoral policies.

Overview

Economic governance refers to the policies, laws, regulations, institutions, practices, and individuals that determine the context in which a country's economic activity takes place. This report advocates the early delivery of technical assistance in economic governance in wartorn economies. Timely assistance of this type is necessary for the reconstruction of economic institutions, the establishment of sound economic policies, and the creation of the capacity for sustainable functioning of a rebuilt state. It thus fosters the conditions for economic recovery, employment, and growth that put a country back on a path of recovery and development. Macroeconomic stability, sound fiscal policy, and other policies and institutions that promote private-sector development are central to creating jobs, reducing numbers of angry unemployed, and giving the population a stake in a new society.

Sound economic governance is the key to remedying underlying tensions, putting conflict in the past, and moving forward with economic development. Failure to establish good economic governance early on limits the possibilities of changing the underlying social relations that had led to conflict and increases the chances of continued or renewed conflicts.

During the early stages of post conflict assistance, there is often a brief window of opportunity to make fundamental changes—a window that closes when various interests consolidate political power. Many key reforms are politically challenging and best undertaken immediately, while potentially opposing interests still are relatively weak. Further, the early introduction of well-targeted, comprehensive economic governance programs can make use of donor money that will typically become more scarce after a few years. There is every reason to set up appropriate economic governance institutions to maximize its use.

The report's conclusions emerge from eight case studies of wartorn economies that cover the span of U.S. reconstruction assistance from 1948 to 2004. The first two concern the reconstruction of Germany and Japan after World War II, where the United States, largely on

its own, applied a comprehensive reform approach and well-thought-out economic governance programs. The remaining case studies summarize economic development projects in the following countries and periods:

- Bosnia in 1995
- Kosovo in 1998–99
- East Timor in 2000
- Sierra Leone after 2000
- Afghanistan after October 2001
- Iraq after March 2003

Lessons Learned

The case studies focus on U.S.-supported economic governance projects and their successes and failures, how they fit into the complex web of other bilateral and multilateral donor efforts, lessons learned, and implications for the future design of economic governance packages. The review seeks to inform donors on how to create an optimal reconstruction effort and stimulate economic growth as soon as possible, even in adverse conditions.

Economic governance programs must be part of the initial sequence of reconstruction. Donors should invest in them, and specific economic governance tasks need to be accomplished. Further, economic governance is one area where, with sufficient resources wisely spent, meaningful progress can be made within a short period.

But while immediate and consistent attention to economic governance is a necessary condition for success, it is not a sufficient condition. Reconstruction efforts must be organizationally well planned and well structured, with streamlined hierarchies of command. Whether one donor or several contribute to this organizational structure is of much less consequence.

Security

Economic governance issues are closely tied to security issues, since reconstruction, economic growth, and development require security. When authoritarian regimes are dismantled immediately following a conflict, corrupt elements of the old regime often morph into criminal groups that seek to maintain control over various economic sectors in a new environment. Where countries had been under sanctions, criminal groups have often emerged that earlier thrived on evading sanctions. Post conflict programs thus need to make a considerable effort to fight organized crime, which otherwise can corrupt the democratization process or, at a minimum, greatly impair the environment for domestic businesses and foreign investors.

Where sanctions or other restrictions on market activity have created opportunities for criminality, economic reforms need to focus on restoring market conditions so that legitimate business can function. A vigorous policing effort is also needed. More broadly, the establishment of the rule of law, coupled with vigorous enforcement and actions against organized crime, is important for creating the basic conditions necessary for the efficient development of a healthy private sector.

Sequencing

The traditional view of sequencing has been to put activities such as establishing security and providing humanitarian assistance first. Economic reforms follow later, and institution building and capacity building wait until the last stages of development. However, many economic reforms are necessary immediately, not only to create conditions for growth but also to deprive instigators of conflict of their economic power base. Activities such as institution and capacity building take many years, so they also should be started earlier rather than later.

A more successful model of sequencing would be to start a wider range of activities early in the reconstruction effort, finishing quickly such shorter-term activities as security and humanitarian assistance, and continuing for a number of years longer-term activities such as economic reforms and institution and capacity building. In this way, the reconstruction effort is integrated into longer-term development.

While it is clear that economic governance in general should start immediately, that is not to say that all aspects should be begun immediately. Privatization, for example, needs to be considered in the context of what is being gained immediately and what its cost is in terms of the immediate welfare of the population. It may not be appropriate at the early stages of reconstruction, and the best strategy may be to postpone extensive privatization activity to a somewhat later stage. Though well-managed private firms with strong systems of corporate governance function more efficiently and better create jobs and serve consumers than poorly run, state-owned firms, a successful privatization effort requires resources and an environment of sound overall economic conditions that may not exist immediately following conflict.

Economic Policy Environment

Too little attention has been paid during reconstruction efforts to building up statistical bases so that government officials and donors can understand the postconflict economic environment. The first component in a sound monetary policymaking process, for example, is good data: without good data, it is impossible to know what is happening with monetary aggregates or what the inflation rate is, let alone target it. This is important because inflation policy in many postconflict countries seeks to bring inflation rates down—from hyperinflationary levels to a level conducive to economic growth over a very short period of time. It is important to not overshoot. Most postconflict countries are also undergoing considerable structural reforms, requiring numerous adjustments in relative prices. Because nominal prices exhibit downward stickiness, a low level of inflation is important for easing these relative price adjustments. Postconflict countries should aim for inflation rates of 5–10 percent.

Using a foreign country's currency can avoid hyperinflation, but it is tantamount to a fixed exchange rate, and the country gives up its capacity to manage its own price policy. Notwithstanding, policymakers must keep monetary and exchange-rate issues in mind. If donor grants lead to the equivalent of currency appreciation and make domestic labor and exports uncompetitive, policymakers may need to sterilize the macroeconomic impact by maintaining any budget surpluses or other available funds overseas.

Physically introducing a new currency (or a borrowed currency) in a wartorn country is an enormous logistical undertaking, requiring coordination, planning, a massive public relations campaign, and secure delivery of cash simultaneously around the country. Implementing an exchange rate policy requires creating a regulated foreign exchange market where the central

bank can buy and sell currency. Such a market needs transparent rules and institutions regarding auction participation and clearing. Decisions also need to be made about who can participate in currency auctions.

In a postconflict country with its own new currency, a flexible exchange-rate regime usually makes the most sense. The central bank likely has depleted reserves and no capacity to maintain a fixed exchange rate, though some intervention will be necessary to counter large flows of donor and other resources into and out of the country. In particular, if a country needs to undergo significant structural reforms and adjustments in relative prices, a slightly higher inflation rate (relative to the dollar or the rate found in the Eurozone) might be desirable, since too low an inflation rate impedes relative price adjustment.

Economies in postconflict countries also need a rudimentary banking system that provides payment services and mediates between savers and investors. Rules must ensure transparency and prevent government direction of lending. Other financial market institutions can wait until later stages of development. If sophisticated institutions are needed, foreign institutions (or foreign experts) can be invited to play a role.

Job Creation

Job creation is also important. Donors can have a negative impact on private-sector job creation, as their own organizations begin to dominate the labor market for professionally skilled workers. There are no shortcuts to job creation other than creating favorable conditions for the private sector to grow, particularly with low taxes and social contributions on labor.

The removal of administrative and other barriers to small enterprise creation can also facilitate rapid growth of a labor-intensive small and medium enterprise sector. In postconflict economies, indirect taxes on consumption are better than direct taxes on profits and incomes, which cause more distortions. In particular, taxes and social contributions on labor should be avoided. Such taxes reduce employment by increasing labor costs, and employment generation is always a principal concern.

Institutions and Law

Institutions need to be built to address specific trade issues and create foreign demand for domestic production, the spark that ignites development. Open trade relations can provide the initial demand to start a virtuous circle of economic activity that pulls a wartorn country out of economic collapse. This can be a particular challenge if the postconflict area is not a sovereign country with clear rights to participate in trade negotiations, if it faces continued hostility from neighbors due to past ethnic and political conflicts, and if its trade negotiating capacity is limited.

The task of creating new institutions and organizing ministries, central banks, and statistical offices usually takes far greater time and resources than expected. Often, insufficient resources are allocated to building capacity of national policymakers as well as training officials in central banks and ministries of finance in modern economics, since high-level officials are usually ousted in postconflict situations. If general education levels are low and new staff must be found for new government offices, the allocation of limited resources to professional training and education will undermine development progress and future prospects.

Some countries can revert to preexisting institutions, but others must create new ones. Basic commercial laws and institutions are needed to jumpstart private-sector development, encourage

foreign direct investment, and quickly create a competition policy that ensures an open, level playing field that allows individuals and firms have opportunities to operate and compete under market conditions.

General laws and regulations are needed that allow for registration of firms (individually owned, partnerships, and corporations—both domestic and foreign). Private property needs to be protected. Contracts need to be enforced. Legislation is also needed to enforce pledges and loans (eventually including mortgages).

Bankruptcy law needs to govern the reorganization and liquidation of companies. Privatization law and competition policies are also needed, particularly where ownership has been highly concentrated or held by the state. Regulatory environments often need to be created or reformed for particular sectors, such as telecommunications, infrastructure, and oil and gas.

Though a cookie-cutter approach—where pieces of legislation are copied wholesale into a country—is the only way to quickly create a modern legal basis from scratch, it has obvious drawbacks. The new legislation will not be entirely consistent with existing laws, nor will it even be understood by legislators, courts, and other practitioners. On the other hand, carefully adapting each new law to particular circumstances will be a prohibitively long process. Each approach has its tradeoffs.

Social Programs

In postconflict countries, social policy must evolve into well-targeted, efficient programs for those most in need, either starting from scratch or reforming programs that have been poorly targeted or based on political privilege. Social programs are how a country provides for its most vulnerable groups, particularly during periods of economic restructuring and adjustment. Social programs also can serve an important political purpose, providing benefits to influential stakeholders. Postconflict countries that have had generous pension programs should move quickly to institute a modern pension system rather than backsliding into recreating the old system.

Gender and women's issues are particularly important in postconflict situations. Under conflict regimes where the most brutal succeed, women tend to fare particularly poorly; in worst cases, rape is a military strategy and sex slavery is rampant. To varying degrees, reconstruction efforts have addressed gender issues by revising laws to grant rights to women or reserve a certain percentage of places in the legislative assemblies for them. Legal changes can also directly address women's rights to own property and businesses and to receive bank loans.

Sectoral Policies

Appropriate sectoral policies—an important complement to overall macroeconomic policy—should address needs in key sectors without creating distortions or picking winners. Given that the government's primary function is to set positive overall economic conditions, provide a level playing field, and let markets work, appropriate sectoral policies would address market failures, externalities, and the particular public institutions that may be necessary. In general, there is a much greater role for government in policies related to intermediary sectors, where most public goods are and the need for government intervention is greatest, compared to those sectors that produce final goods and services.

Agriculture, however, is a particularly important sector in many postconflict countries, as it employs poorer, but politically important elements of the population. The results of sectoral

reforms, in land and other areas, in recent postconflict countries have been mixed. Usually, such complex, politically sensitive reforms have received insufficient attention from donors.

Reconstruction Lessons

The Marshall Plan and Postwar Japan

Some of the growing literature on the Marshall Plan's applicability to current postwar reconstruction efforts focuses on technical issues and overlooks the plan's goals, organization, and funding mandate. Crucially, it was treated as an investment designed to benefit the United States, rather than a recovery exercise or the carrying out of a "moral obligation." The significant point in the success of post-World War II reconstruction was that the programs were well thought out and planned, at least after the first year of uncoordinated and unfocused assistance.

Donor competition was absent. Under U.S. authority, effective institutions for governing were created, and recurrent and capital expenditures were unified under one U.S. spending authority. Donor decision-making was also unified under one structure, led by the United States, with little more than opportunities for consultations by other donors.

That all assistance was under the auspices of the U.S. Government was not the main factor in the success of postwar reconstruction programs. What is of more interest is how the Truman administration, faced with division and squabbling between the State and War departments, worked to resolve issues, restore the advantage of a single-donor decision-making process, and honed the ability to self-correct. Entities engaged in postwar reconstruction availed themselves of all available U.S. Government resources on economic reconstruction and planning, and they were supported by secretariats that provided unified staff assistance. Planning and implementation of the Marshall Plan and the Japanese reconstruction program were thus well organized and coordinated, through a unified structure and an explicit national development framework.

More attention was given to broad humanitarian assistance and food security than to administratively more complex social assistance programs in Europe and Japan, but the focus was on economic governance issues as much as humanitarian, security, and physical reconstruction programs. Significant attention was given to budget execution, establishing a functioning fiscal authority and a rational tax system, and ensuring fiscal discipline within available tax revenues so as to not cause instability. As much as possible, the budget was used to guide policy, priority was given to rebuilding economies and institutions of economic governance, and the services of development agencies were available to help achieve collectively agreed-upon goals. The fiscally disciplined Erhard Plan is credited with establishing fiscal stability and, consequently, the monetary stability that laid the foundation for Germany's rapid growth and development.

U.S. occupation forces in Germany and Japan invested in developing a statistical base on the economy and statistical analyses to inform policymaking. The German economy was reformed and put on a fiscally prudent path, in sharp contrast to punitive policies adopted after World War I. Establishment of rudimentary clearing mechanisms was sequenced first, along with the restarting of production and fiscal and monetary stability. Full currency convertibility and extensive financial sector reform came later, and narrowly targeted institutions of cooperation were created before broader institutions. The establishment of convertible currencies between European countries was a central part of the Economic Recovery Act, though not immediately introduced.

In Europe, only 5 percent of U.S. assistance was reserved for U.S. spending needs; 95 percent was used for purposes deemed important by recipient states. In each European country, resources were allocated to the creation of means for effective budget execution, including local-country decision-making in procurements. Programs emphasized production and integration of countries into a continent-wide economy, and an intra-European payments system was created to facilitate intercountry trade. The success of the Marshall Plan was built on the principle of encouraging trade among European countries and with the United States. Policymakers were particularly keen to ensure openness of European borders and to build institutions necessary for promoting European regional trade and integration. These efforts to promote development through trade integration subsequently evolved into the European Community and European Union, the most successful example of economic development in the twentieth century.

In postwar Japan, occupation reform efforts reduced concentration of ownership in large firms that had been in the hands of militarists. The occupiers quickly introduced modern commercial laws, thereby putting Japan on the path to market development. They also fundamentally revamped the education system, a massive undertaking guided by a large commission of U.S. education leaders. Modern competition policy was introduced, and various anticompetitive and monopolistic practices were made illegal. The relatively open, competitive environment created gave other social groups a stake in the newly restructured economy, and there was no widespread purge of government bureaucracies.

Vast amounts of legislation were copied and adopted as Japanese law from various international best practices, giving Japan a cut-and-paste modern legal system. One crucial component was the addition of a constitutional article that guaranteed women's rights, marking a fundamental turnaround in the status of women in Japan. Land reform was another important element of the Allied Forces' agenda. Reforms that greatly increased ownership of land in agricultural regions by those working it contributed not only to Japan's economic productivity but also to widespread political support for the results of U.S. occupation.

Other Reconstruction Efforts: From Bosnia to Afghanistan

Bosnia in 1995

Important gains were made initially in providing emergency assistance and helping Bosnia to return to normalcy after the Balkan Wars. But the reconstruction effort unfolded on an ad hoc basis: some planning was done by individual donors, but was not well coordinated with other donors. USAID's coherent plan of programs for Bosnia was only partially followed. With time, the prospects for sustained growth have become even more limited.

The country has only partially moved from socialist-to market-oriented laws, and it has failed to implement tax reform, mostly continuing high payroll taxes. Bosnia also largely recreated the old system of social benefits, based more on previous job status than actual social need. It attempted to reinstitute the Yugoslav pension system, which suffers from chronic deficits, places a high cost on employers, and creates an onerous burden on the state budget, crowding out expenditures on other social programs.

Bosnia adopted its own currency, fixed at first to the deutschmark and then to the euro, using a currency board—an exception to the rule for monetary policy in postconflict countries. Such a board likely works only in a relatively small country, where comparatively large donor inflows could be expected to prevent pressure from mounting against a fixed exchange rate.

In Bosnia and the rest of the Balkans, security has only come with partition of people into mostly ethnically separate areas and a continued international presence dedicated to maintaining security. Another security issue is the organized crime groups associated with the Milosevic regime, which circumvented sanctions and facilitated transport of smuggled goods (particularly cigarettes) into Europe. Many of these groups have continued to operate, expanding into new areas such as human trafficking. In other parts of former Yugoslavia, their activities raise funds for radical groups opposed to the peace process.

Very little progress has been made in creating a unified state and common economic space. Instead, a system of parallel governments—one international and one local—was established, and the local government was broken into cantons split along ethnic lines. While this cumbersome form of government was perhaps unavoidable, it has been largely ineffectual and an impediment to most development efforts. The parallel structure also reduces the pressure on local authorities to act responsibly in their decision-making.

Kosovo in 1998–99

An economic governance package that had been reasonably well planned in advance was introduced early on in Kosovo after the NATO bombing campaign. Much of the legal and institutional foundation for a market economy was built, most of it unprecedented, including new economic governance institutions that included a central bank and private commercial banks. Legislation was enacted on company law, contracts, pledges, procurement, and a host of other areas.

A modern tax system was established that emphasized indirect rather than labor-based taxes, starting with simple presumptive taxes on total revenues and then moving to a VAT and low excise taxes. Taxes on labor have been kept low, initially with a 10 percent personal income tax rate and a small contribution for funded individual retirement accounts.

Kosovo also created a modern pension system, along with social programs that give needs-based assistance to the very poorest and a veterans' benefit. Based on objective poverty criteria that are relatively easy to measure for a government with limited administrative capacity, the program has been a useful mechanism for quelling opposition and giving a politically influential group a benefit from the postconflict system.

There has been less progress in other areas. Inadequate macroeconomic management and failure to open regional trade opportunities has resulted in poor performance of the domestic economy, and unchecked crime has exacerbated the situation.

The replacement of Serbian government officials by Albanians with no government experience has been another postconflict problem. While the training of officials in the treasury, tax administration, and various regulatory agencies has gone fairly well, Kosovo lacks macroeconomic and fiscal analysts within the Ministry of Finance or the central bank. Because the statistics office was unable to produce quality statistics needed for the policymaking process, the Ministry of Finance began to conduct its own ad hoc statistical analyses to construct the consumer price index and national accounts. Only in late 2003 and early 2004 did donor attention turn to assisting this office to develop statistics needed for a government in a modern market economy.

Kosovo's status—still part of a sovereign Serbia and Montenegro, but under an indefinite UN interim protectorate—has created great uncertainty, and there is no broad consensus on its final status. Trade barriers existed because neighboring countries did not recognize Kosovo license

plates, car insurance, or any rules of origin. In addition, no authority consistently and adequately represented Kosovo within the Stability Pact for South Eastern Europe. Failure to develop better trade relations, largely due to lack of capacity within the UN mission (or perhaps lack of recognition of the importance of trade issues), significantly hampered prospects for Kosovo's economic development. It's uncertain status also affects the future of property rights and investors' willingness to invest. The bifurcated system of government has often resulted in bad expenditure decisions.

The donor presence was organized under one roof of the UN mission, but each major donor has had its own pillar, whether humanitarian assistance and resettlement, civil affairs, democratic development, or economic development. Each maintained the culture of its donor organization, with some of them run by staff lacking relevant technical skills and experience. As in Bosnia, there was very little coordination between donors on capital expenditures and investment projects.

East Timor in 2000

In East Timor, the extent of preparedness benefited from the lessons of Bosnia and Kosovo. Toward the end of the conflict, representatives of the UN and the World Bank planned the reconstruction effort, with the participation of a number of East Timorese nationals in exile. The UN mission was better integrated into one organization than was the case in Kosovo, and more thought was given to creating an East Timorese government. Reconstruction has been a cooperative effort of many multinational donors, and their funding for capital projects was channeled through one account. However, the international community was unprepared for the level of destruction that followed the independence referendum, and in-country donor presence was less than what was required.

The public administration in East Timor was downsized at the outset of reconstruction. Since many Indonesian civil service employees had fled, positions were eliminated and East Timorese hired into a greatly reduced civil service. The greatly reduced level of expenditure did not unduly affect the quality of government services, facilitated a long-term fiscal envelope more compatible with a market economy, and created the foundation for a sustainable fiscal policy. It is likely that this bold reform would have been politically impossible at a later stage of the reconstruction process.

To ensure economic recovery and sound economic management, a central fiscal authority was created through which all government payments would be authorized and managed, and central payments office was mandated that would evolve into a central bank. Low tax rates conducive to economic growth yielded sufficient revenues to cover a portion of state expenditures. Until projected oil revenues come on stream, budget deficits are covered by World Bank-managed donor trust funds. These factors, along with community-based reconstruction and a significant international presence, contributed to the relative economic development East Timor experienced during the immediate postconflict period.

Sierra Leone After 2000

In Sierra Leone after its civil war, assistance focused on bringing the diamond trade into the formal sector and out of the shadows where it provides financial resources to warring parties.

The UN mandate was drawn much more narrowly than in Kosovo and East Timor. Donors focused initially on immediate tasks: security, reintegration of fighters into communities,

development of local community participation in government decision-making, some agricultural sector and infrastructure development, and a few key changes in the diamond sector. The risk is that important structural reforms will be less politically feasible at a later stage.

Without concentrating on the broader development of economic governance capacity, fiscal policy focused on increasing revenues, shifting toward indirect taxation, maintaining a flexible exchange rate, keeping inflation in single digits, and building a medium-term expenditure framework on the budget preparation side. In retrospect, perhaps budget implementation should also have received attention early on.

Efforts to bring the diamond trade within state control have yielded some successes. More and more diamond traders are being formally licensed by the government and their activities monitored. These efforts have increased the benefit to the state budget from diamond revenues and reduced the extent to which conflict diamonds are funding arms purchases.

Afghanistan after October 2001

With USAID support, steps have been taken toward physical reconstruction and the adoption of a market-oriented development agenda in Afghanistan. A legitimate government was quickly established after the invasion. Donors coordinated aid and capital investments through one account and one donor coordinating committee, and multidonor joint assessments were instituted at the outset of reconstruction activities. However, the limited progress in building a centralized system of state expenditures parallels the national government's limited political authority. That said, Afghanistan, in relative terms, is one of the more successful reconstruction efforts, largely because government and donor spending has strictly adhered to priorities in the country's National Development Framework and the budget has been used as the main tool of policy.

Since the end of the military campaign, Afghanistan has managed strong real growth. It has set in place a fiscal authority that can account for all donor funds used, and it has put a financial management information system in place for proper cash management of the government budget. This is a remarkable achievement among war-torn economies. The current and capital budgets were fused early on in the process, a lesson from experiences in Kosovo. In addition, the introduction of a currency auction and new currency was well managed and an independent central bank was set up.

Among the country's notable problems is a weak security system outside the capital, which is a continuing and central impediment to growth. Opium production has risen since the conflict ended, and lower ministerial levels in the government continue to be staffed by personnel with low education levels. Only in 2004 was a statistics master plan created to comprehensively address needs in developing statistics capacity, with agreement on allocation of assistance tasks across donors. During the initial postconflict years, the central bank was unable to target inflation without a reliable consumer price index. Only after a rudimentary index (at least for Kabul) was established could the bank begin targeting inflation rates, rather than the exchange rate.

Notwithstanding, Afghanistan has made good choices, often with the help of foreign assistance, in establishing the economic governance necessary for reconstruction. As in East Timor, progress has been made in centralizing most capital expenditures through one account overseen by the World Bank. Legal, regulatory, and trade policy reforms are being tackled. If the comprehensive set of economic governance reforms introduced is managed well, this should facilitate increased foreign assistance over the next 10 years.

But Afghanistan requires public-sector investment, particularly infrastructure reconstruction—funded by the United States and other donors and private investment—to ensure that the country can attract increased amounts of foreign aid in the out years and take advantage of economic reconstruction investment applied to date. But it is worth noting, within this context, that the level of assistance received is low, compared to other postconflict regimes, and that donor assistance must rise substantially to meet projected revenue requirements over the next seven years. Though security and transportation exceeded required donor assistance, none of other sectors even came close to meeting donor commitments of required resources.

Iraq after March 2003

The reconstruction of Iraq is one of the largest postconflict efforts undertaken by the United States since the Marshall Plan. After the U.S.-led invasion and occupation, the Coalition Provisional Authority (CPA) put in place several important components of economic governance, including introducing and managing a new currency, building a modern budget preparation and execution process, and addressing problems in the banking sector. Although the CPA did not give initial priority to implementing a comprehensive economic governance program, the main institutions of economic governance—monetary and fiscal authorities—were introduced. However, the legal and regulatory regime has lacked adequate local buy-in, the trade regime has not received adequate attention, Oil-for-Food (OFF) in-kind subsidies have not been monetized, and the privatization program has not been implemented.

The widespread postconflict destruction and looting was not anticipated. Although there was extensive planning for postwar reconstruction, much of it was not used. There was no national development framework as a working document for a new Iraqi regime, nor was there international buy-in from the world's major multilateral institutions.

The Department of Defense set much of the policy in the early months, and there were tensions between U.S. Government agencies involved in the reconstruction. Links and coordination between the CPA and Iraqi officials or counterparts have also been weak at times. The CPA did not use USAID resources as effectively as it could have, its initial focus was short term, and it did not undertake to self-correct, following the Marshall Plan example.

In addition, de-Baathification left many influential segments without a clear stake and removed many competent technocrats from government. Because there was no competent government-in-exile to assume the reins at the end of the conflict, a provisional solution—the CPA—was unavoidable. But this provisional presence caused lack of clear decision-making authority, another impediment to development.

Expectations also needed to be managed differently in Iraq than in poorer postconflict countries experiencing large refugee problems and humanitarian crises. Iraqis can remember when the country had the highest per capita income in the region and a diversified economy. In addition to its oil and gas wealth, Iraq has had a nationwide civil administration and human capital qualitatively on par with the rest of the Middle East.

Iraq's unemployment rate currently stands at about 50 percent, largely a result of the atrophying GDP after the 2003 invasion and an extremely poor growth performance since the 1980s and the Iran-Iraq War. The capital-intensive oil sector cannot absorb large numbers of unemployed. While oil can lead growth, the non-oil sector requires an investment environment that stimulates labor-absorbing growth. This requires a proper investment climate, backed up by

an appropriately liberal trade regime, stable monetary policy, and a solid fiscal revenue and expenditure base—in other words, the proper economic governance institutions in place.

The CPA introduced some basic institutions: primarily the fiscal and monetary authorities of the Ministry of Finance and Iraq's central bank. Emphasizing monetary stability, the CPA instituted a currency auction, after much advocacy by USAID and the Bank of England.

To sterilize new donor flows and stabilize the existing currency, the CPA also launched a new currency, drawing on IMF and USAID experiences in Afghanistan. Though much attention was given to improving banking capacity, difficult conditions slowed progress. When reconstruction began, most banks did not even communicate electronically with their own branches. The CPA decision to allow only large commercial banks and not small money changers had a political rationale, but it greatly limited the number of participants in auctions, made collusion and manipulation of market exchange rates easier, and effectively criminalized segments of the foreign exchange markets.

The CPA began a budget program that integrated all public revenues and expenditures; established a municipal, regional, and national framework and a financial management information system; began to tackle tax administration and capacity building in administration; and introduced personal and corporate taxes at low 15 percent maximum marginal rates. The authority also combined current and capital budgets, avoiding the mistake made in Kosovo and learning from Afghanistan. However, expenditures of the government of Iraq, the CPA, and OFF programs have not been fully integrated into a unified expenditure system, and the budget policies introduced, begun too late, may not be continued by the new Iraqi regime.

Two other problem areas are the legal and regulatory regime and trade. Though a full complement of commercial legislation was introduced by the CPA, most laws were imported, and they were issued without appropriate consultation and any relationship to Iraqi traditions, legal culture, or judicial review. Imported model laws are only a starting point of an iterative process; for the legal and regulatory environment to take hold, substantial domestic buy-in, implementing instructions, and precedent are required. Introducing a trade regime is more straightforward, but nothing has been implemented in Iraq, other than the lowering of tariff rates and the establishment of a trade bank.

The security situation in many parts of Iraq is the most significant factor impeding economic growth. Another factor is OFF programs, which created a dependence on subsidized imported food that was distributed almost free to domestic markets. OFF-subsidized imports distorted the economy—reducing domestic production and impeding job creation—and created opportunities for corruption by giving government officials and distributors unusual power over the allocation of the economy's resources. Together with the security situation, the failure to replace OFF programs with monetary subsidies during the brief period of coalition rule might turn out to be a key shortcoming of the reconstruction effort, since this task is more unlikely to be undertaken by subsequent governments with a more tenuous grip on power.

Lessons in Economic Governance

1–13: General Lessons

These general lessons address the principles of preparedness and planning beforehand; the rational structuring of government and donor assistance; a focus on private-sector-led growth;

the economic reform agenda predating the conflict; resolution of final political status; programs for key political and social constituencies; and capacity building.

1. Begin to plan early: Preparation should begin early, while the conflict is still underway, and potential donors and representatives of any national organizations likely to play a role in the postconflict government should participate. The tasks of organizing donors, preparing to move funds, identifying key issues and counterparts, and getting personnel ready to relocate require at least several months, even with concerted effort.
2. Offer well-thought-out and logical donor assistance: New, postconflict governments and donor presence should be well integrated and structured to address their tasks; they should not merely reflect underlying political tensions and donor cultures.
3. Focus on private-sector–led growth: Even at the initial reconstruction stage, growth and job creation should be expected to come from private-sector–led growth, not government and donor spending.
4. Give security a high priority: Security is a public good that the government (with international support) mostly needs to provide, and it is essential for reconstruction, investment, and economic development. But it is wrong to think that security must precede economic development. Both must come together, synchronically, and lack of progress with one will hinder the other.
5. Fight crime: Postconflict programs must focus on preventing organized (and unorganized) crime from corrupting the democratization process or impairing the general environment for business and foreign investors.
6. Address the economic reform agenda predating the conflict: Unless the underlying economic problems that originally contributed to conflict are addressed, they can continue to cause instability and threaten the peace.
7. Work toward resolution of final political status: Lack of resolution of final political status creates uncertainty and impedes reconstruction, investment, and economic growth. To the extent possible, assistance efforts need to recognize the importance of building certainty into reconstruction processes.
8. Develop programs for key political and social constituencies: Early programs need to focus on key political and social constituencies, including social programs that help most vulnerable population groups and give veterans and decommissioned soldiers a stake in the new society.
9. Build new institutions for economic governance: Building new institutions for economic governance takes time, and it should begin early in the reconstruction process.
10. Train individuals for economic governance: The training of a professional class of analysts and policymakers for economic governance also takes time, and should begin early in the reconstruction process.
11. Develop sound economic data: A modern policymaking process needs sound economic data, which require considerable investments by donors to develop.
12. Pay attention to sequencing: High-priority and time-consuming activities should begin toward the start of the reconstruction effort. These high-priority activities include actions to

assure security, budget execution systems, and capacity building. Fiscal, monetary, and financial reform are always necessary—early and often. Privatization does not have the same urgency.

13. Undertake difficult reforms when reconstruction is just beginning: The period at the very start of reconstruction, while often chaotic, is an important window of opportunity to undertake politically difficult reforms and institutional changes. Then the level of influence of donors is particularly high and the level of power and organization of opponents of reform is particularly low. Donors may be able to undertake fundamental reforms that are not possible at other times.

14–26: Pillars of Sound Economic Governance

The lessons listed concern the six pillars of sound economic governance: macroeconomic and financial stability; balanced and efficient fiscal policy; open trade relations; robust legal and regulatory regimes; equitable social policy; and appropriate sectoral policies.

14. Focus on macroeconomic and financial stability: Prior to setting monetary and exchange policy, instruments for setting and implementing policy should be created: a currency in circulation, a foreign exchange market, market data on prices and exchange rates, and a policymaking process in an independent central bank or its equivalent.

15. Pay attention to exchange-rate and inflation policy: The need for stability must be balanced with the need for export competitiveness. Careful responses are needed to neutralize the impact of large donor inflows and other postconflict macroeconomic phenomena.

16. Bring inflation rates down: Inflation policies should bring inflation rates down to low, stable levels, while still allowing for adjustments in relative price levels.

17. Start with the basics in the financial sector: Financial sector policies should concentrate on the basics of creating a payments system and establishing a rudimentary regulatory regime over a private banking industry. The cultivation of more sophisticated financial market institutions should be left to a later stage in development.

18. Develop balanced and efficient fiscal policies: One of the most immediate tasks in postconflict country is the creation of mechanisms for budget execution. Creating or improving systems of budget execution is the first priority for expenditure policy, even before developing a budget preparation process. A government (or donor surrogate) needs a modern treasury system and expenditure information management system through which all expenditures can be implemented and monitored.

19. Begin tax policy with simple, indirect taxes: Tax policy should evolve, along with the capacity of tax administration. It should begin with simple, indirect taxes such as presumptive taxes, and develop toward more complex, indirect taxes, such as the value-added tax.

20. Integrate capital expenditures and investment projects: Capital expenditures and investment projects should be integrated into a comprehensive state public investment program and capital budget.

21. Open trade relations: Institutions need to be built to address each country's specific trade issues and create foreign demand for domestic production, which can be the spark that ignites development.

22. Establish robust legal and regulatory regimes: Basic commercial laws and institutions—including laws and regulations that allow for registration of firms, govern bankruptcy, protect private property, and enforce contracts—are necessary for jumpstarting private-sector development and encouraging foreign direct investment. Privatization law and competition policies may be needed, along with relevant regulatory environments for particular sectors.
23. Establish equitable social policies: Social policies must evolve into well-targeted efficient programs for those most in need, along with those that serve important political purposes, including providing benefits to influential stakeholders such as war veterans.
24. Institute a modern pension system: Countries that had generous pension programs should move quickly to institute a modern pension system.
25. Address gender discrimination and women's issues: The use of rape as a military strategy, sex slavery, and trafficking in women and children may need to be addressed, along with legal changes that recognize women's rights to own property and businesses and receive bank loans.
26. Promote appropriate sectoral policies: Appropriate sectoral policies should provide public goods where needed, particularly in infrastructure areas. Such policies address market failures, externalities, and the need for public institutions particular to various sectors, but without creating distortions or “picking winners.”

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Restoring Hope – Economic Revitalization in Iraq Moves Forward

Paul A. Brinkley, Deputy Under Secretary of Defense for Business Transformation

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Counterinsurgents achieve the most meaningful success by gaining popular support and legitimacy for the host government, not by killing insurgents. Security plays an important role in setting the stage for other progress, but lasting victory comes from a vibrant economy, political participation, and restored hope.

—U.S. Army Field Manual 3-24, Counterinsurgency¹

One of the critical factors in the counterinsurgency strategy that is demonstrating early but measured progress in increasing security in Iraq is the alignment and rapid application of economic development as security improves.

As discussed in the first part of this series on revitalization of the Iraqi economy, “A Cause for Hope” (*Military Review*, July/August 2007), the challenges in leveraging and applying American economic expertise, investment, and other stimuli to uplift the Iraqi economy have been numerous, ranging from policy to strategy to tactics.

Prior to 1991, Iraq was the most industrialized of the Arab states with a significant base of industrial operations across a wide range of sectors, and a highly skilled civilian workforce. From 1991-2003, industry in Iraq was strictly focused on internal production to meet domestic demand—United Nations sanctions prevented export of goods or international economic engagement, although some factories remained relatively modern through investments in equipment upgrades.

Following the collapse of the regime in 2003, the Iraqi workforce experienced great economic hardship with unemployment and underemployment exceeding 50 percent.² These conditions directly contributed to insurgent sympathy and economically motivated violence. The Task Force for Business and Stability Operations in Iraq (TFBSO) was established in 2006 by Deputy Secretary of Defense Gordon England to address the revitalization of the industrial economy in Iraq. What follows is a status report on this revitalization effort and the ongoing transition of the Iraqi industrial economy to a free-market state that is integrated with global financial, supply, and trade infrastructures.

TFBSO and the Overall Economic Mission in Iraq

Underlying every strategic objective of the task force is a core principle based on the size and scope of the U.S. presence in Iraq. For calendar year 2007, Iraq had a gross domestic product estimated at \$55 billion.³ The U.S. Department of Defense (DOD) current cost of sustaining operations in Iraq is approximately \$10 billion per month.⁴ Most of this cost is dedicated to sustaining the presence of our uniformed service members and civilian workforce, covering not only the direct cost of military operations, but also everything from housing to food to security at the local level.

Considering U.S. government spending as a market has underpinned the TFBSO’s economic development strategy in Iraq. Careful application of this spending with an eye on local economic development, while ensuring our forces are sustained with the best possible materiel support,

has fundamentally changed the way DOD considers economic reconstruction and has led to the development of new approaches to post-conflict stabilization.

Economic reconstruction in Iraq has required an interagency operational concept that leverages the collective strengths of the various U.S. government entities in Iraq. The general framework illustrated in figure 1 represents the interagency operating model that has emerged for Iraqi economic development.

While the boundaries for the model are not firmly fixed, this general structure has informed collaboration and cooperation among involved U.S. government entities. With this basic structure defined and agreed upon, the TFBSO further defined its areas of focus.

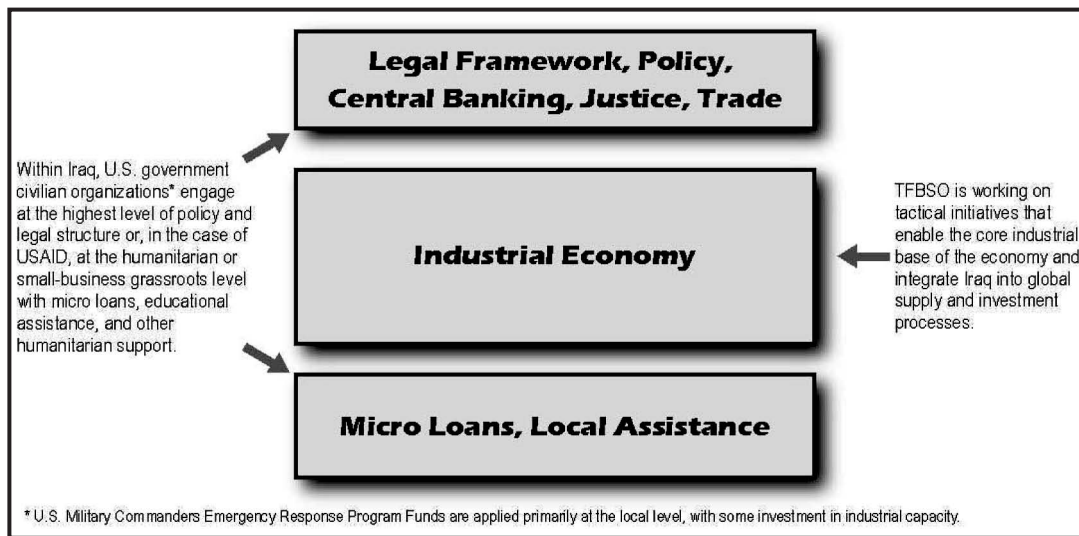


Figure 1. Interagency engagement model.

Framework for an Industrial Economy

From its inception, the Task Force for Business and Stability Operations has operated with a broad set of focus areas, each with a dedicated team of U.S. government and business leaders engaging in all areas of the country, and has been tightly aligned to Multi-National Force-Iraq (MNF-I) and its subordinate commands. While much of the public understanding of the task force has focused on enabling and automating direct contracting with Iraqi businesses and restarting idled large state-owned enterprises shut down since 2003, these two primary focus areas led to expanded emphases on economic development for each critical tier of a modern industrial economy.

A modern industrial economy must possess the following key elements:

- A fiber-optic communications backbone with corresponding local wireless access capability to enable automated transaction processing as well as broad-based access to information via the Internet.
- A banking sector and financial system infrastructure capable of automated financial management, from large-scale bank-to-bank financial transactions to personal financial transactions.

- Active industrial operations across sectors identified as competitively advantageous for economic or strategic reasons.
- Small-business and private-sector entrepreneurial activity to drive future employment.
- Private-sector investment processes to encourage inflows of private capital to further stimulate business growth.

These key elements are addressed by the TFBSO operating model in figure 2.

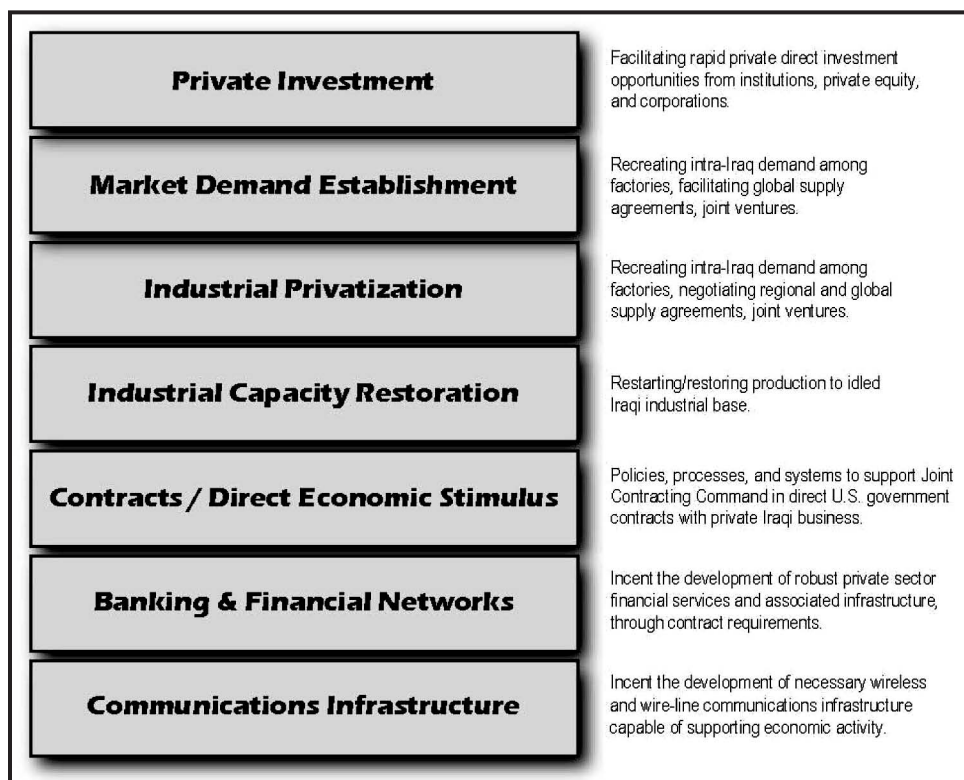


Figure 2. Task Force operating model.

Review of Task Force Focus Areas

The progress and current status of the key economic elements in Iraq present an optimistic picture for the way ahead.

Communications infrastructure. To successfully integrate Iraqi industry with the global economy, a cost-competitive core fiber-optic communication backbone with robust connections to wire-line and wireless infrastructure is critical. In partnership with the MNF-I Communications and Information Services Command, the Defense Information Services Agency (DISA), and the U.S. Embassy Baghdad advisor for telecommunications, the TFBSO launched several initiatives to stimulate the creation of such a network infrastructure.

To incentivize public- and private-sector companies to build up Iraq's fiber-optic communications infrastructure, DOD leveraged its bandwidth consumption for non-secure traffic. As of

2007, all non-secure DOD communications were being transmitted over satellite—the most costly means of broadband communication. Due to the lack of necessary low-cost terrestrial network infrastructure, and in the absence of alternatives, costly satellite-based Internet and telecommunications access has become common in Iraq. In partnership with DISA, TFBSO is working to contract with public and private telecommunications firms in Iraq to purchase bandwidth—encouraging these firms to build out communications networks. As these terrestrial networks are built out, private-sector businesses (banking, industrial transactions) can transfer from satellite communications onto them.

Communications infrastructure status. The first step in this critical effort has been establishing fiber-optic network capacity from Baghdad through Basra to Kuwait City, beginning to link to the global Internet backbone. This project, launched in January 2007, continues, although there have been delays resulting from circuit-testing failures within this first link managed by Iraq Telecommunications and Post Company (ITPC), the Iraqi state-run telecom enterprise. As this first circuit becomes active, subsequent links north through Mosul and west through Al Qaim will be pursued, with necessary spurs to key industrial centers, including Irbil, Sulymania, and Najaf.

While these efforts to motivate construction of core terrestrial networks continued, the Government of Iraq (GOI) executed private-sector auctions for Global System for Mobile (GSM) cellular communications licenses at the national level during the summer of 2007. These license auctions, originally expected to generate no more than \$400 million in total revenue for the GOI, were an astounding financial success for Iraq. Three licenses generated \$3.6 billion in revenue to the GOI from regional investors. These licenses have been awarded and network consolidation within Iraq is now underway. Modern mobile data services are being offered as a result of the investments in new infrastructure, and cell phone penetration in Iraq has increased by 50 percent since the summer of 2007, with over 12 million subscribers now active.

Direct economic stimulus through contracting. In support of the Joint Contracting Command Iraq/Afghanistan (JCC I/A) commander, Major General Darryl Scott, U.S. Air Force, the task force coordinated changes to policy unifying operational control of contracting in the Iraq area of operations under JCC I/A. Changes included fielding a system to automate contracting transactions in a way that was useful to Iraqi businesses as well as to the command resources working to ensure Iraqi firms were given access to DOD contracts. This new information system, the Joint Contingency Contracting System, was fielded in September 2006 and now operates with over 1,000 active users across the DOD contracting community in Iraq and Afghanistan. It provides a central database for Iraqi and Afghan companies, their capabilities, awards to date, and contract performance.

Direct economic stimulus through contracting status. The JCC I/A's "Iraqi First" program (which mandates that DOD contracts go to Iraqi businesses whenever possible) has been extremely effective. In the past 18 months, over 3,900 private Iraqi businesses have registered and received U.S. contracts at a monthly value in excess of \$100 million. These contracts range from construction to material goods to professional services across a variety of sectors. This direct economic stimulus has generated more than 100,000 Iraqi jobs across the country. Figure 3 provides a graphic representation of the contract dollars awarded since the Iraqi First program was conceived and launched in the fall of 2006.

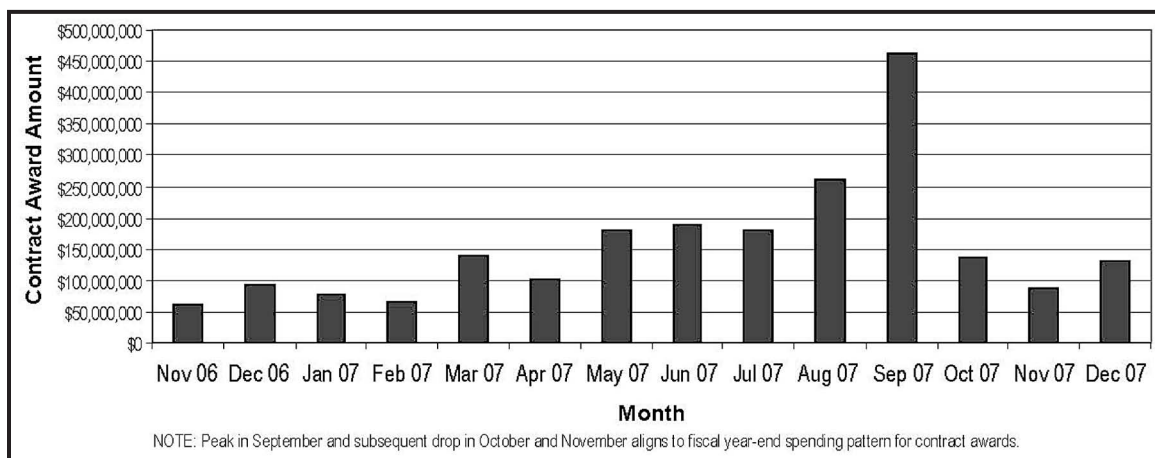


Figure 3. Host-nation contracting impact.

Financial infrastructure and private banking. A key issue in the development of a modern economy in Iraq has been the absence of a well-regulated, modern banking sector. Prior to 2003, Iraqi banking was dominated by a few large state-owned financial institutions that were closed to international financial flows due to United Nations sanctions. Despite negotiations since 2003 over debt settlements with creditor nations, these large state-owned banks are still not modernized because automating and linking them to global financial networks would enable their assets to be seized by creditor nations.

Over the past several years, however, a significant number of private bank branch offices have opened in Iraq, many with links to global financial networks via rooftop satellite access that enable electronic funds transfers (EFTs) (figure 4). The expansion and growth of these EFT-capable private financial institutions is critical to stimulating sustained economic development and to moving Iraq from a cash-based society to a modern economy.

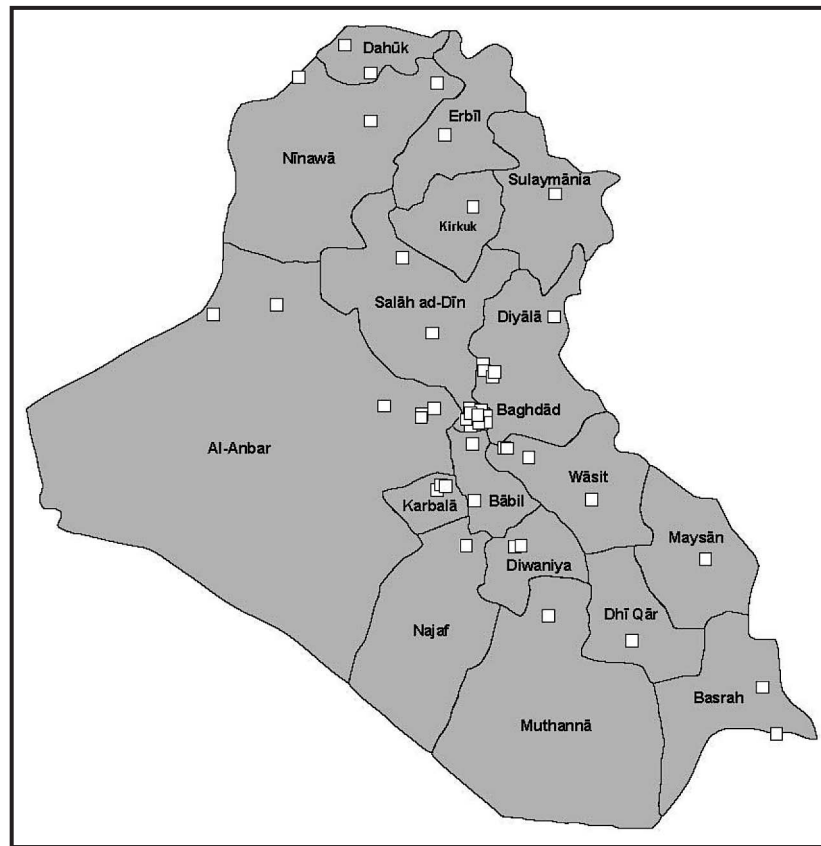


Figure 4. Geographic distribution of private bank branches with EFT capability.

Financial infrastructure and private banking status. Working in close partnership with the U.S. Department of the Treasury and JCC I/A, the TFBSO launched an effort in the fall of 2007 to stimulate and develop the private banking sector in Iraq. The effort includes building a consortium of Iraqi private banks. One of the consortium's objectives is to establish a core shared private financial infrastructure to efficiently process payment and financial-transfer transactions. The operating model for this shared service was defined and agreed to by the private banking consortium in January 2008. A key next objective is the establishment of a transaction regulatory body, the Iraqi Payments Association, accountable to the Central Bank of Iraq for oversight. The establishment of this body is planned for the summer of 2008.

To directly stimulate the rapid capitalization and expansion of private banking, and also to stimulate the migration away from a strictly cash-based economy toward EFT and management, steps were taken to again leverage DOD spending as a market incentive. Under policy that took effect in November 2007, and as a next step in the Iraqi First program, businesses in Iraq receiving new U.S. contracts are required to open accounts with one of the EFT-enabled private banks, from which they will receive all payment from DOD. The impact of this requirement has been immediate and measurable, as shown in figure 5.

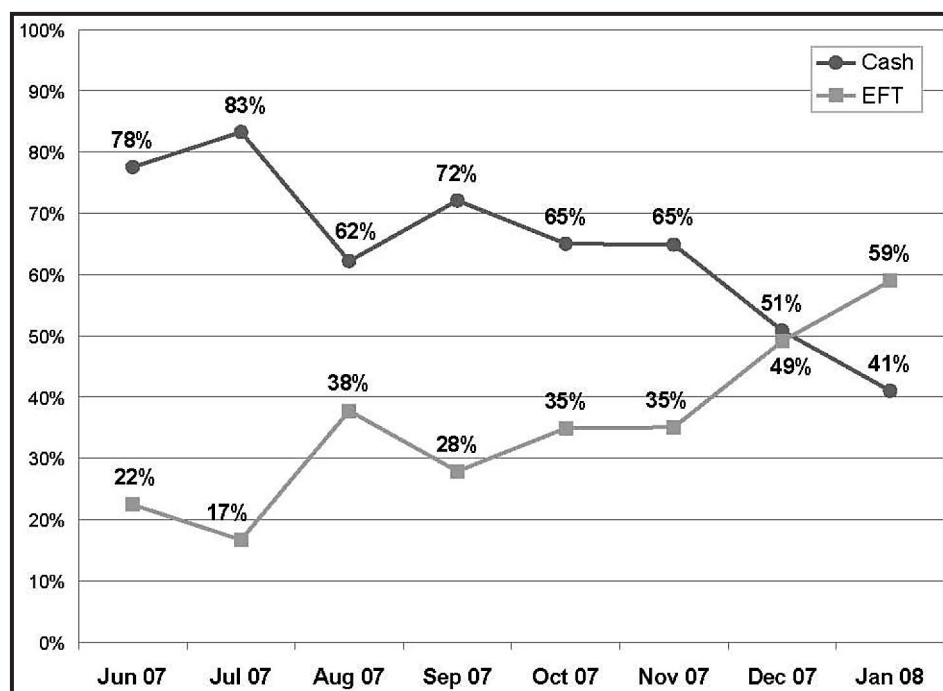


Figure 5. EFT adoption rate.

As the graph indicates, by January 2008, almost 60 percent of payments to Iraqi firms were being executed electronically instead of via cash disbursement. The benefits of this transition include reduced payment cost and improved efficiency for DOD, the migration of over 3,000 private Iraqi enterprises to modern banking practices, and the elimination of cash-based payment and its attendant risks of corruption and violent theft. Over \$100 million a month in DOD contracting actions are eligible for payment electronically. This flow of cash through private banks will improve their capitalization, enabling these critical financial institutions to begin their own private investment practices at the local level, further stimulating economic growth.

Industrial revitalization. As described in depth in “A Cause for Hope,” a primary area of emphasis for TFBSO was the restart of Iraq’s industrial base, largely idled or operating at a small percentage of capacity since 2003. Fielding a team of experienced business leaders, accountants, and consultants, TFBSO assessed major industrial sites across the country, as indicated in figure 6.

The restart effort struggled initially, in the absence of any appropriated funds for small capital investments in spare parts, training, or other requirements necessary to enable production in factories that had been idle for years. Between November 2006 and September 2007, 17 factories covering a variety of industrial sectors were restarted in Iraq. These operations were restarted by the direct application of demand via U.S. or Iraqi government contracts for goods or services, or through direct links to sources of demand inside Iraq. The infusion of \$50 million appropriated by Congress during the summer of 2007 accelerated the industrial revitalization effort significantly—enabling TFBSO to launch 48 projects in 30 additional factories or production lines across the country.

1. State Company for Mechanical Industries (SCMI), Iskandariyah ★	24. State Company for Rubber Industries, Najaf	47. Baghdad Electrical, Baghdad
2. State Company for Automotive Industry (SCAI), Iskandariyah ★	25. State Company for Textile Industries - Hilla, Hilla	48. State Company for Batteries Industries, Baghdad
3. Iraqi State Company for Cement, Fallujah	26. State Company for Cotton Industries, Baghdad	49. State Company for Construction Industries - Stone Cutting, Baghdad
4. Iraqi United Gypsum, Fallujah	27. State Company for Leather Industries, Baghdad	50. State Company for Woolen Industries, Baghdad
5. State Company for Glass and Ceramics - Plate Glass, Ramadi	28. Al Furat State Company - Chemical, Al Hindiyah	51. State Company for Dairy Products, Baghdad
6. State Company for Glass and Ceramics - Consumer Glassware, Ramadi	29. That Al Sawary State Company for Chemical Industries - PVA, Taji	52. Al Furat State Company - Detergent, Hindiyah
7. State Company for Glass and Ceramics - Ceramic Tile, Ramadi	30. That Al Sawary State Company for Chemical Industries - Resins, Taji	53. State Company for Construction Industries - Marble Cutting, Erbil
8. State Company for Glass and Ceramics - Ceramic Fixtures, Ramadi	31. State Company for Drugs and Medical Supplies - Samarra	54. Southern State Company for Cement - Sedda, Sadat al Hindia
9. Al Sumood State Company - Steel Structures, Taji	32. State Company for Petrochemical Industries, Basrah	55. Kani Bottling, Kani
10. Al Sumood State Company - Foundry, Taji	33. State Company of Fertilizers - South, Basrah	56. Kurdish Textiles, Erbil
11. Nassr State Company for Mechanical Ind. - Trailers, Taji	34. Harir Tomato Paste and Fruit Processing Plant, Harir	57. State Owned Slaughterhouse, Baghdad
12. Nassr State Company for Mechanical Ind. - Foundry, Taji	35. State Company for Construction Industries - Concrete Pillars, Mosul	58. Sulymania Apparel Company, Sulymania
13. Nassr State Company for Mechanical Ind. - Machine Shop, Taji	36. State Company for Heavy Engineering Industry (HEESCO), Doura	59. UB Group Brick Factory, Dahok
14. Northern Cement State Company - Badoush, Mosul	37. State Company for Hand Woven Carpets, Baghdad	60. Mosul Ready to Wear, Mosul
15. State Company for Drugs and Medical Supplies - Ninawah, Mosul	38. State Company for Paper Industries, Basrah	61. Ahram Foodstuff Manufacturing Company, Dahok
16. Northern Cement State Company - Sinjar, Sinjar	39. Ur State Company for Engineering Industry, Talil	62. National Metal and Bicycle Plant, Mahmoudiyah
17. Iraqi State Company for Cement, Al Qa'im	40. Northern Company for Furniture, Ninawah	63. Ready Made Clothing (RMC Company) Mahmoudiyah
18. State Company for Phosphate, Al Qa'im	41. Baghdad Factory for Furniture, Baghdad	64. Al Hamara's Biscuit Company, Mahmoudiyah
19. Diyala State Company Electrical Industries - Transformers, Baqubah	42. State Company for Cotton Industries, Baghdad	65. Sulymania Food Processing Plant, Sulymania
20. Diyala State Company for Electrical Industries - Electric Meters, Baqubah	43. State Company for Electrical Industries (SCEI), Baghdad	66. State Company for Paper, Taji
21. Diyala State Company for Electrical Industries - Optic Cable, Baqubah	44. State Company for Vegetable Oils Industry, Baghdad	67. Dakuk Dairy Facility, Dahuk
22. State Company for Fertilizer - North, Bayji	45. Al Monsour State Company, Baghdad	68. Al Ikka Metal Fabrication Plant
23. State Company for Ready Hand Made Wear, Najaf	46. State Company for Tobacco and Cigarettes, Baghdad	69. Al Shaheed Brass Plant
		70. Tikrit Flour
		71. Taji Furniture
		72. Al Az Electronic Industry (2 factories)
		73. State Company for Rubber Industries, Diwaniyah Tire

◀ Arrows indicate one or more active TFBSO projects underway at the site in partnership with multinational division commands.

★ Stars indicate factories started or with material increases in production or employment resulting from TFBSO efforts.

Figure 6. Assessed and impacted Iraqi factories.

Industrial revitalization status. As a result of these efforts, the task force has restarted or materially increased production at 29 factories across Iraq as of the date of this publication, with projects underway at 18 additional sites. Over 10,000 sustained jobs have resulted from these restarts, which also generate secondary and tertiary economic activity and employment at the local level—stimulating local suppliers, service providers, and other businesses.

Wherever possible, the task force has worked to again link factories together that once engaged in commercial transactions. As described in “A Cause for Hope,” these intra-Iraqi commercial relationships were a stabilizing element of Iraqi society. When investments in raw material, machinery, or other goods or services have been made to enable factories to restart, TFBSO has sourced these goods and services between and among Iraqi factories whenever possible. This sourcing helps align industrial revitalization to the overarching objective of political reconciliation.

The TFBSO has continued to help Iraq build industrial partnerships with international firms. A recent example of this engagement is illustrated by the international agriculture firm, Case New Holland Corporation, which partnered with TFBSO to restart tractor manufacturing operations at an idled factory in Babil province.⁵

Industrial privatization and entrepreneurial activity. The long-term intent of TFBSO economic efforts in Iraq remains Iraq’s transition to a vibrant free-market economy that is seamlessly linked to the global marketplace. TFBSO’s initial objective was to restart idled large state-owned factories, restoring employment and stimulating local economic activity. Working in support of the Iraqi Ministry of Industry and Minerals (MIM), the next step is to solicit bids from private investors for joint ventures or direct investment in operational state-owned enterprises. Such solicitations are first steps to long-term full privatization of these enterprises.

This is a transitional approach that is consistent with economic transition models successfully applied in other former command economies, especially in East Asia. As a method to introduce foreign investment and expertise from international businesses, this approach avoids large-scale displacement of skilled workers and undermines insurgent sympathies. For a post-conflict economic development effort in an industrialized economy such as Iraq, in which terror networks prey upon local economic distress to generate support, this transitional approach also reduces the threat to our uniformed men and women.

Industrial privatization and entrepreneurial status. In February 2007, MIM issued a public solicitation for investors in 13 large state-owned factories in sectors ranging from construction materials to mineral processing to industrial operations. TFBSO accountants, consultants, and legal advisors have provided direct support to MIM in order to establish transparent, auditable financial review and assessment processes, and have actively supported each stage of review of bids submitted.

On 10 January 2008, the Government of Iraq announced the first awards of joint ventures to three Iraqi-European financial consortiums for large cement-manufacturing plants in Muthanna, Al Qaim, and Kirkuk. Averaging over \$100 million each in foreign direct investment, these proposals turn operational management of each cement factory over to the respective investor group while retaining ownership of the facility with the GOI. The investor will manage the facility, increasing the current average levels of 250,000 tons of cement per year to an average of 1.8 million tons per year, and receiving a majority percentage of profit over a 15 year period. Over 5,000 jobs will be created under the terms of these proposed transactions.

Given the security environment that has challenged Iraq over the past four years, these first joint ventures represent a highly desirable, and profitable, business model for both the investor and the GOI. The GOI gains world-class expertise in factory operation, as each consortium includes an international cement manufacturer, while the investor benefits because of the GOI's stake in both security and development in the surrounding area over the period of the agreement.

These initial agreements, in final legal negotiation at the time of this publication, represent great progress for the Iraqi government and for TFBSO efforts to support revitalization of Iraqi industry as a step to private-sector development in Iraq. The notion of hundreds of millions of dollars in private foreign capital flowing into such places as Muthanna, Al Qaim, and Kirkuk did not seem possible even a few months ago. Yet today, thanks to improvements in security that have taken place across the country under MNF-I leadership, foreign investment is starting to take place. TFBSO is hopeful that there will be additional announcements of joint ventures and new industrial starts over the coming months—further signs of normalcy taking hold in Iraq as security improves.

Private investment. In September 2007, following the Congressional hearings in which General David Petraeus, Commander, Multinational Force-Iraq, and Ambassador Ryan Crocker, U.S. Ambassador to Iraq, provided a review of status on post-surge security, political development, and economic stabilization in Iraq, there was a groundswell of interest from foreign investors regarding investment in Iraq.

This interest was unexpected. TFBSO had emphasized the importance of foreign investment and global corporate presence in Iraq from the inception of its effort, leveraging support from organizations, including the U.S. Chamber of Commerce and DOD's Defense Business Board, to solicit engagement from business in support of economic development in Iraq. These efforts resulted in business engagement with initial momentum, but new interest among U.S. corporations tapered off significantly in the late spring of 2007. The reasons cited at the time related to the decline in overall U.S. public opinion regarding the Iraq mission. TFBSO decreased its efforts to draw U.S. businesses to Iraq as a result of this decline in interest. However, to date 15 of the 29 American and international corporations that the TFBSO hosted in Iraq during the winter and spring of 2007 have transacted business or submitted proposals for new business that are still in review.

The emergence of interest in Iraq among investors after September appears to have resulted from a growing sense that there would be no sudden reduction or elimination of the U.S. presence, and that the surge strategy was bearing signs of progress in security. Investors began seeking information about the numerous secure areas of the country that were ready for new business development.

There is a pervasive sense among investors that Iraq has the potential for great prosperity, not only as a petroleum producing nation, but also as a diversified economy in a critical region of the world. While debates continue about necessary legal structure for Iraqi hydrocarbon sector development and associated revenue-sharing among sects and regions, there is great opportunity for investors seeking to enter the ground floor of all other industries—the point at which early investment in a developing region results in the greatest financial return.

To address this interest, TFBSO established a foreign direct investment team in October of 2007. This group, which includes experienced investment banking professionals, facilitates engagement of foreign investors in Iraq by identifying opportunities for immediate new business in partnership with the GOI. Primary initial investor interest is in new construction, specifically

hotel, retail, and office space construction and property management. As a result of the lack of real estate development in Iraq over the past 18 years, there is a large need for hotel and office space development in anticipation of business expansion as petroleum companies engage in Iraq in coming years.

Initial areas of focus include the geographic areas and associated investment opportunities as shown in figure 7. These areas were selected based on their current security status, as well as direct input from the GOI at the national and provincial level.

Geographic Area	Initial Areas of Investor Interest
Baghdad – International Zone, Abu Nawas, Haifa Street	Hotels, office and retail construction and management, food services, food processing, construction services.
Baghdad Airport	Hotels, office and retail, convention services.
Iskandariyah	Industrial assembly and fabrication, maintenance.
Najaf	Hotels and tourism infrastructure and services.
Karbala	Hotels and tourism infrastructure and services, agribusiness.
Basra (including Airport)	Hotels, office and retail, professional services, petrochemical sector support services.
Kurdistan Region	Broad-based investment across industrial sectors underway. Vibrant market economy emerging.

Figure 7. Foreign direct investment priority areas and opportunities.

Private investment status. TFBSO has already facilitated a proposal in final review and negotiation with the GOI for construction of a new, internationally branded hotel with retail space in the International Zone. Additional investment proposals are in process for hotel and office construction in Baghdad and Basra, as well as food processing, food services, and new industrial construction. Assuming security improvements are sustained and expanded over the next several months, there is reason for optimism that foreign investment will increase and that new, privately funded construction and business development will expand in the near future.

Earlier Recommendations and Status

In the earlier report, “A Cause for Hope,” three specific recommendations were made regarding revitalization of the Iraqi economy. One of these, the alignment of economic development to political reconciliation efforts, was described earlier and continues to be a part of the overall TFBSO strategy.

A second recommendation focused on the need for standard international tariff and trade policies for Iraq. Since 2003, all tariffs on inbound goods have been suspended—essentially making Iraq a completely free open market for all international goods. This situation is unsound, especially for industries such as agriculture and food processing, which remain in a state of depressed output. As of the time of this report, the suspension of all tariffs remains in place.

The final recommendation involved the restoration of bank balances for state-owned factories seized in 2003. The cancellation of balances was a key step in shutting down state-owned factories, as it denied working capital necessary for purchase of raw material, maintenance, services, and new equipment. TFBSO took this recommendation forward in partnership with the GOI, then learned that the process to restore bank balances would be untenably slow, given the speed the industrial revitalization effort was attempting to achieve.

Instead of restoring bank accounts, the Ministry of Finance has applied an alternative strategy of allocating GOI budget to the Ministry of Industry and Minerals for the specific purpose of recapitalizing idled industrial facilities. Four-hundred million dollars has been budgeted in 2008 for the MIM, which exceeds the approximate value of the bank balances seized in 2003. The MIM is working with TFBSO to maximize the net effect of that budget. To illustrate the significance of this decision by the GOI, the total capital budget in 2007 for the MIM was approximately \$30 million.

Next Steps

The two initial focus areas for the task force, contracting support and industrial revitalization, are now targets of new strategic direction, designed to rapidly boost the growth of private business and the ability of large industrial enterprises to adapt their operations in support of broad Iraqi economic development objectives.

In the area of contracting and direct economic stimulus, the next step is an opportunity resident in the information JCC I/A collects on Iraqi businesses. Recall that over 3,900 private Iraqi businesses have been registered, have received contracts for goods or services, and are rated on their performance as a supplier to DOD. The Joint Contingency Contracting System now has 18 months of data, representing over a billion dollars in contracting actions, for these companies. This database represents a wealth of information helpful to future business development in Iraq. With the support of appropriate DOD general counsel and advice from international financial institutions and the Government of Iraq, TFBSO is working to identify appropriate mechanisms to enable private investors to invest in these Iraqi companies. TFBSO believes that these mostly small-to-mid-sized companies could eventually form the backbone of one or more Iraqi growth funds, enabling individuals to invest in the future of Iraq. This would provide a channel of capital to entrepreneurial Iraqis, enabling more rapid growth and associated broad economic benefits.

In the area of industrial revitalization, the task force will apply standard business investment management practices to the process of allocating new funds to idled or low-production-rate Iraqi factories. Directors general (factory managers) of individual plants are being instructed in the preparation of business plans, marketing strategies, and capital investment plans. To receive new funding, these factories must submit their plans and strategies for review. Submissions will be combined with commander requirements for reemployment and stabilization in each area of operation within Iraq, and based on this combined criteria, funds will be granted. The disciplined process for executing any funds used to date will remain—but in the next phase we will use the funding to motivate factory managers to adopt standard international business practices. In fact, many factory managers are already adept at international business practices, and for these managers this process has proven relatively easy to adopt.

This investment-based approach will prepare the state-owned enterprises for the future they will encounter as they seek capital from private funding sources, and as privatization of these factories takes place over the coming years.

Integrating the Overall Effort

TFBSO is working in partnership with MNF-I commands and the Government of Iraq to stimulate rapid establishment of the necessary elements of a modern industrial economy. A robust communications infrastructure enabling a transparent, modern, well-regulated banking sector capable of supporting vibrant small, medium, and large enterprises is the vision for the Iraqi economy set forth by the Iraqi government. Security improvements have been significant, giving rise to cautious optimism and interest in investment by foreign private financial institutions and corporations. It is early, and much difficult work remains to make this vision a reality.

This is a critical time. The opportunity for the full application of economic development in support of counterinsurgency doctrine is now. The opportunity to support the Iraqi people in their desire for prosperity in a diverse, safe, and open society is now. The opportunity for international investment with an orientation to high risk and high return in a nation with great potential for long-term prosperity is now. Seizing these opportunities remains the challenge of the day. **MR**

Notes

1. U.S. Army Field Manual 3-24, *Counterinsurgency* (Washington, DC: Government Printing Office, 2006), 1-27.
2. U.S. Agency for International Development, *Employment Participation and Unemployment in Iraq* (Washington, DC: Government Printing Office), May 2007.
3. United Nations Economic and Social Commission for Western Asia (ESCWA), *Estimates and Forecasts for GDP Growth in the ESCWA Region 2007-2008*, 7 December 2007.
4. United States House of Representatives Budget Committee, *Hearing on the Growing Cost of the Iraq War*, 24 October 2007.
5. Case New Holland Incorporated—press release, *Case New Holland Announces Sales of 200 Tractor Kits to Restart Assembly Operations at Iraq Factory*, 31 January 2008.

Paul A. Brinkley is deputy under secretary of defense for business transformation. In June 2006, he was tasked by the deputy secretary of defense to lead the Task Force for Business and Stabilization Operations, Iraq. Mr. Brinkley holds bachelor's and master's degrees in industrial engineering from Texas A&M University and has completed coursework for a Ph.D. in operations research from North Carolina State University. The holder of four U.S. patents for systems and process technologies, he was a senior executive with several successful international companies prior to joining the Department of Defense in 2004.

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The Interagency Future—Embedded Provincial Reconstruction Teams in Task Force Marne

Sergeant First Class Jesse P. Pruett, U.S. Army Reserve

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IN HIS FOREWORD to U.S. Army Field Manual (FM) 3-0, *Operations*, General William Wallace emphasizes that victory in modern conflict will be achieved “only by conducting military operations in concert with diplomatic, informational, and economic efforts. Battlefield success is no longer enough; final victory requires concurrent stability operations to lay the foundation for lasting peace.”¹

Combat operations thus require further insight largely beyond the conventional canon of military training and expertise. In response to this emergent reality, the Army ushered in a new element to traditional arsenal of war: embedded provincial reconstruction teams (ePRTs). These teams consist of a small civil-military cadre drawn from government agencies and experts at the brigade level. Task Force Marne was one of the first to host these groups, serving as home to four teams.² Based on the Marne experience; I will examine the origins and definition of embedded provincial reconstruction teams. In challenging some basic assumptions, I will discuss the difficulties encountered as these teams formed and integrated into their brigade-level counterparts. Finally, I will offer recommendations to increase team effectiveness.

Into the Surge

By the spring of 2007, U.S. forces in Iraq began receiving the first influx of additional combatants in what came to be known as the “surge.” Simultaneous to this influx was a less publicized discussion about how, beyond military prowess, the United States could directly leverage the full complement of its national power to support the “on-the-ground” efforts of the warfighters. The answer, first articulated in the January 2007 “New Way Forward” speech by President George W. Bush, was to expand the provincial reconstruction team concept to create embedded teams.³ The embedded teams were a joint and interagency construct that “represents the civilian contribution to the military surge.”⁴ Department of State Foreign Service officers joined with experts from the United States Agency for International Development, the Department of Agriculture, the Department of Justice, and contracted specialists from various backgrounds to form a collaborative cell of civilian experts. This cell, augmented with a mid-level military officer as deputy, became a direct component of the maneuver brigades.

Task Force Marne is the element that commanded the Multi-National Division-Center from March 2007 until June 2008. The unit’s operational environment covered an area of 23,190 square miles stretching from the Saudi Arabian border in the West to the Iranian border in the East, encompassing four full provinces (Babil, Karbala, Najaf, and Wasit) and the two largest qadas (counties) of Baghdad Province, Mada’in and Mahmudiyah.

Provincial reconstruction teams in Iraq divide into two primary categories: “paired” and “embedded.” Paired provincial reconstruction teams are largely stand-alone entities, with robust manning structures and dedicated movement security teams. Their mandate includes government engagement at the provincial level.⁵

Embedded teams, on the other hand, are fully entrenched at the brigade combat team level, sharing the space, resources, and hardships of the units with which they partner. These embedded

teams have a capacity-building mandate to engage the Iraqi government and population at the local level and support the brigade's counterinsurgency effort. Theoretically, these embedded teams have a four-person core element: a team leader, deputy team leader, United States Agency for International Development representative, and bilingual-bicultural advisor. A bilingual-bicultural advisor is a subject matter expert who is native to the region and provides insight to the cultural dimension. Around this core, additional specialized personnel are added based on their availability and the specific mission requirements. A baseline team of 7 to 11 personnel is normal.⁶

In the spring of 2008, Task Force Marne had five paired provincial reconstruction teams and four embedded provincial reconstruction teams operating in its "battlespace." The Baghdad provincial reconstruction team, whose mandate extended to all of Baghdad Province, shared an overlapping relationship that included Multi-National Division-Baghdad. The Babil team, along with the nominal operations of the Karbala and Najaf teams, operated from the Regional Embassy Office in Hillah. The other provincial reconstruction team was in Wasit Province, near the provincial center of Al Kut. Marne's four embedded teams were known as "Baghdad 4," "Baghdad 7," "Baghdad 8," and "North Babil." This served as the crucible which tested the embedded provincial reconstruction team concept and revealed areas of weakness and strength.

Embedded Team Pedigree and the Afghan Catalyst

The success of the TORCH operation is critically dependent upon the reactions of the authorities, inhabitants and troops of North Africa. With this in mind, General Eisenhower has on his staff a Civil Administrative Section to coordinate the civil and political matters in immediate relation to the operation. He urgently requests that men from the State Department be released to serve on this body. ...[T]he War Department should undertake to carry out this operation in all respects, but the political and civil phase of the plan could be facilitated by the aid of the State Department.

—Memo, General George C. Marshall for President Franklin D. Roosevelt, 3 September 1942⁷

Embedded provincial reconstruction teams call upon a varied pedigree. Although new, they did not emerge suddenly. The embedded teams are the third evolution of the broader provincial reconstruction team concept, which further traces its civil-military lineage at least to World War II. Battlefield commanders through the centuries have had little cause to consider an official role for civilians among their combat units. This view changed considerably during World War II, and it has been developing ever since. From brevet promotions and the implementation of the Marshall Plan, to codifying pacification efforts through the Civil Operations and Revolutionary (later Rural) Development Support (called "CORDS") program in Vietnam, and to the shared operational space of the Balkan conflicts, the direct role of civilians representing other instruments of national power on the battlefield has continued to evolve.⁸

The Army's counterinsurgency principles, formalized in FM 3-24, *Counterinsurgency*, call upon the Army to expand from its singular reliance on the standard sword and shield tools of war. This holistic approach leverages critical elements of society to look beyond a defeated enemy and achieve a more comprehensive victory.⁹ A clear example, and an early application of these principles, came when the provincial reconstruction team concept emerged in 2003 in Afghanistan as a precursor to the embedded teams.

The irregular environment of Afghanistan proved appropriate for examining the direct integration of nonlethal military activities using civilians. As FM 3-24 states, "Military forces can perform

civilian tasks but often not as well as the civilian agencies with people trained in those skills. Further, military forces performing civilian tasks are not performing military tasks.”¹⁰ Development is not an art in which the military is trained, nor does it seek to be an agency for the delivery of such a service. The military seeks to set the conditions for development, first establishing security and then providing a platform for the delivery of the immediate needs of the populace. Beyond this a gap occurs.

In Operation Enduring Freedom, something was missing between the immediate tactical application of military activity and the eventual concerted international community development effort. The U.S. government response in Afghanistan created the first provincial reconstruction team for this need. This effort initially was a stand-alone construct, physically apart from the primary military presence and imbued with a distinct nonlethal mandate. Components of this group were civilians, but it was a military organization with military leadership. The Afghanistan environment accorded a large degree of autonomy and the military hierarchy facilitated a degree of natural integration with overall military activities. As a group of combined experts, it largely bridged the development gap and opened the door for the insertion and expansion of the broader international community. Based on this modest success, the military exported the combined civilian-military approach of the provincial reconstruction team to the Iraq conflict.

In Iraq, the provincial reconstruction team program was restructured with a civilian emphasis. The teams now possessed Department of State leadership and a focus on civilian skill sets. The exception was the deputy team leader, usually a lieutenant colonel. By 2006, counterinsurgency principles began to take prominence in coalition force operations, leading to the surge and a devolved, community-centric focus. Expertise in areas such as local governance, business development, and agriculture was now a requirement. This course adjustment precipitated the evolution of the fundamental provincial reconstruction team concept into the embedded team concept.

Truth in Advertising

Embedded provincial reconstruction teams must affect the environment quickly. They must establish bona fides with the combatant commander, stake a claim to legitimacy in the eyes of the populace, and prove they are trustworthy interlocutors to the Iraqi leadership. However, team personnel usually arrive at a disadvantage when compared to their combatant counterparts. The combatant commander leads a robust and highly trained team, has experienced more time on the ground, owns comparatively vast resources, and exhibits a disdain for patience.¹¹ Additionally, scant training, an unpredictable manning process, and an unfortunate misunderstanding of their mandate often undermine embedded teams. Despite tremendous promise, these groups often experience costly delays in establishing legitimacy and achieving effectiveness due to these largely foreseeable and correctable problems.

Erroneous Expectations

In Task Force Marne, embedded provincial reconstruction teams, as marketed, were more myth and shadow than realities. This judgment is not to say that they were ineffectual but does suggest that their mission was made more difficult due to the way they were assembled and packaged. The mythology begins with the name “embedded provincial reconstruction team.” The title of a nonfiction book generally describes some truth about what the reader may expect to discover in its pages. A military commander, a host-nation-government official, or an average Iraqi citizen is likely to make some reasonable assumptions when beginning interactions with an organization that calls itself an embedded provincial reconstruction team. That the team provides a cohesive

organized unit tasked with addressing reconstruction issues at the provincial level is certainly a reasonable expectation. However, this expectation, though reasonable, would be in error. Not because these groups do not fulfill their mandate, but because their mandate does not match their name, these differences are more than merely splitting hairs or semantics. The name carries ramifications for managing expectations and providing both guidance and structure to the group's operations.

Three claims make up the label: provincial, reconstruction, and team. Taken individually it is clear how this label creates inherent difficulties in clarifying roles and establishing bona fides.

- **Provincial.** The mandate for embedded teams does not extend to the province. Their realm of interaction is sub-provincial. Aligned as they are with task-organized brigades, they cede provincial level interactions to provincial reconstruction teams, just as brigades defer to the division level. Therefore, they develop a sphere of influence that focuses on local level interactions, not provincial ones.¹²
- **Reconstruction.** As a term of art, “reconstruction” may be interpreted as the full spectrum of activities necessary to provide a framework for social, economic, political, and military stability. However, to an Iraqi citizen or company commander, this word conjures an image of hard “brick and mortar” infrastructure projects. Thus, collaborators with the embedded teams inaccurately expect that construction contracts for schools, clinics, and the like will soon follow. While the actual mandate may only touch on infrastructure reconstruction, the expectations of others make actual mission accomplishment more difficult. Thus, the teams’ viability suffers.
- **Team.** The concept of “team” is critical and fundamental to the success of a civil-military group in a counterinsurgency environment. The embedded provincial reconstruction team does achieve the limited standard of the definition for “team” as “a number of persons associated together in work or activity.”¹³ However, a true team, an effective collaboration of individual skills directed toward a shared vision, requires a higher standard. When thinking of successful teams, one imagines sports teams, a group of lawyers in a complex legal case, or perhaps a military unit. In these cases, people prepare and train together in advance of the endeavor they will undertake. They link their individual skills and actions in direct concert with those of their teammates to produce a coordinated outcome. This result presupposes teammate cooperation; individuals who have specific, appropriate skills; and sufficient numbers to fill the requisite positions of the team. Task Force Marne teams’ inaugural year was fraught with difficulty in these aspects of preparation and appropriate staffing. Thus, the claim of establishing a true team is elusive.

Recognizing that embedded provincial reconstruction teams are not quite what they appear does not delegitimize them. Rather, in breaking down the myth, we create the foundation for understanding what the concept aspires to: a uniquely contributing part of the counterinsurgency effort.

Manning the Ship

The true value of the embedded provincial reconstruction team is in its personnel. In Task Force Marne, talented experts made magnificent contributions. For example, the United States Agency for International Development’s representative and member of the North Babil team, Dr. Louis Tatem, collaboratively participated in the revitalization of Jurf as Sukhr. His work was key to

transforming this blighted area, and it illustrates the high potential of partnerships between teams and units.¹⁴ However, this and other similar successes largely hinged on individual effort and personal relationships, not on an institutionalized standard. As noted in a Brookings Institute report, “Perhaps the most important area of improvement is in how well the new embedded provincial reconstruction teams are working...Unfortunately, State and other civilian agencies have done a poor job providing the needed manpower for the [teams].”¹⁵ This lack of cohesion owes to two primary factors: staffing and preparation.

Staffing. “In somewhat typical State Department fashion, the mandate to staff provincial reconstruction teams came down from above and the Foreign Service had to respond—without an influx of sufficient funding, training, or personnel.”¹⁶ This quotation from former Foreign Service officer Shawn Dorman refers to the broader process as initially implemented in Iraq, but it applies to the embedded provincial reconstruction team situation as well, with the additional caveat that many individuals comprising the teams come from sources outside of the Department of State. Although the process is somewhat mysterious, and its uneven flow undoubtedly owes to many factors, there is apparently no cohesive staffing plan.

Due to the absence of such a plan, a number of detrimental conditions have emerged. At various stages, the embedded provincial reconstruction teams at Baghdad 7 and Baghdad 8 have been reduced to a fraction of the baseline group, merely 29 to 43 percent required strength.¹⁷ Brigade combat teams and embedded provincial reconstruction teams are seldom able to identify when a replacement may arrive to fill an open vacancy or replace redeploying personnel. In some instances, embedded provincial reconstruction team personnel arrive with impressive credentials in a particular field, expecting to apply those skills in a position matched with their experience, but they soon find themselves in a position that requires them to serve as the subject matter expert for something foreign to their background and qualifications. At Baghdad 4, acute vacancies identified as critical remain unfilled while other positions receive duplicate candidates.

Team positions require a robust vigor due to the rigorous combat environment and extreme climate temperatures encountered. This raises concerns when individuals of significantly advanced age or poor physical fitness present themselves for service.¹⁸ Once assigned to and faced with the austerity of an embedded provincial reconstruction team, some individuals have sought and received reassignment to the relative luxury of Baghdad’s International Zone. Complaints about a general lack of individual comforts such as televisions, DVD players, and refrigerators have been common.

Although anecdotal, these instances articulate two requirements for the embedded provincial reconstruction team positions. Personnel must possess both the requisite expertise of the position and the ability to thrive in a demanding physical environment. A codified and standardized approach to the identification and preparation of personnel is necessary. While many positions fill appropriately, the examples above reinforce the concerns voiced by many. In an informal discussion regarding the criticality of specific skill requirements and the less-than-ideal efforts to match those skills to actual need, one team leader emphasized the “consistent underestimation of how hard the job [really] is” displayed when filling “expert” positions.

Preparation. In the military, you axiomatically train as you fight. In many cases, incoming embedded provincial reconstruction team members have never worked with the military and some have never even worked abroad. The work environment for team members is certainly austere and can be intimidating. Team members arrive as individuals having never met, much less worked with, fellow teammates or their military counterparts. Newcomers are not systematically prepared for the circumstances they encounter. Instead they must rely on the

happenstance of previous personal experiences. The team itself is not systemically prepared to orient, train, and incorporate the newcomer. The brigade, comprehensively engaged in myriad tasks, expects the newcomer to quickly provide insight and deliver value. In short, embedded provincial reconstruction teams and the individuals who comprise them are setup for failure. The simple fact that teams generally *do not fail* speaks to the quality of the individuals who are involved and the willingness of the broader team to work together to overcome the institutional hurdles.

The in-country oversight responsibility for administration and human resources issues lies with the Department of State's Office of Provincial Affairs. Thus, it absorbs the brunt of criticism for this ad hoc manning process. However, their task is challenging, involving a selection process that occurs beyond their auspices. It involves coordination of a number of interagency partners and individual contractors over which it has limited authority. The Office of Provincial Affairs is a nascent body, striving to grasp the reins as it works through a chaotic milieu that includes its own manning shortfalls.

In some cases, the staffing difficulties result in an absence of critical expertise to accomplish the civil-military mission. Baghdad 7 endured significant personnel fluctuation and uncertainty in its brief tenure. Recognizing the limitations, team leader John Smith, a veteran with decades of experience developing teams in tricky situations, worked hand-in-hand with 2/3 Brigade Combat Team to secure the staffing support of talented officers from within the unit itself. While this arrangement worked, it is another example of success in spite of the lack of established support systems. As the security situation improves and the demand for true subject matter expertise rises, military officers can shore up the dam only to a certain point. The lasting effort needs to be less on point-of-impact creativity and more on influencing systemic change in identifying, preparing, and deploying embedded provincial reconstruction team personnel.

Achieving Unity of Effort

The fundamental issues are not new. What is new in the current context is the nature of the conflict, the conditions of service, and the delivery method of the required skills. The vehicle for delivery in the modern environment is the embedded provincial reconstruction team, a viable and valuable asset and an integral component of a brigade combat team's available tools. As noted in a report from the Office of the Special Inspector General for Iraq Reconstruction, "with few exceptions, we observed good civil-military integration and cooperation, and brigade combat team leaders seemed convinced that embedded provincial reconstruction team members provided valuable advice and expertise and constitute a tangible benefit to their battle."¹⁹ However positive the experience thus far, the teams have only scratched the surface of their potential. A comprehensive and longer term approach to the development of these teams can achieve the full measure of their promise. This optimization process can occur by directing institutional resources toward a three-fold approach:

- Forecast needs and identify individual team members.
- Provide individual preparation and develop the small team dynamics of the embedded provincial reconstruction team.
- Integrate team training with the sophisticated predeployment training of brigade combat teams.

Beginning at the Beginning

Any initiative must have a starting point. The embedded provincial reconstruction team deployment process should start when a brigade receives its deployment warning orders. Warning orders provide military units with a notice to begin preparations for an action. In the case of Operation Iraqi Freedom, brigade combat teams have significant time in advance of their deployments. By now, embedded provincial reconstruction teams are ingrained in brigade leadership, and the planning to fully incorporate the team should take place as a matter of course. However, there are other pieces to the puzzle. The interagency partners providing assets to the embedded provincial reconstruction team must receive notice similar to the brigade's warning order from their national-level leaders so that they too may develop their support plans. The organizations contributing personnel should appoint a team coordinator for the provincial reconstruction team program who will identify the individuals for selection and coordinate with both the departments of State and Defense to support these personnel with the full preparation process.

The Individual

There are three opportunities to influence the incoming team member: prior to deployment, throughout the deployment process, and during the deployment itself. There is no effort currently made prior to deployment. Once the deployment process begins, incoming members attend a two-week training course in the Washington D.C. area followed by a two-day orientation at the U.S. Embassy in Baghdad. A benefit of these courses is that new members form relationships with others en route to their assignments, and this contributes to a viable support network. The training itself is limited in duration and scope, notably without any real military integration component. Upon completion of the two-day orientation, individuals leave the embassy to join their teams and the team-building process begins. Unfortunately, this is very late in the game to begin team integration. To be effective, the preparation pipeline must—

- Expand to begin at the beginning prior to deployment.
- Provide deeper insight into the nature of the mission.
- Broaden its focus to include critical team elements, especially military interaction.

The Near Team

The concept of embedded teams in the Task Force Marne context exists on two levels. At one level is the larger comprehensive team, embodied by the brigade combat team, but comprised of the full spectrum of actors directing their energies toward influencing the same territory, service sector, or population segment assigned to the embedded provincial reconstruction team.²⁰ But before the larger team is established, there is the embedded provincial reconstruction team itself, the “near team.” Its internal composition, interpersonal dynamics, and ability to produce a cohesive and relevant product or service is the near team. Efforts to build this team should be ongoing and must begin early in the process. To synchronize the team, Department of State should collaborate with coordinators from the partner agencies and with Office of Provincial Affairs to identify the specific requirements. They should develop embedded provincial reconstruction team templates for the projected brigade locations. These agencies should then identify the personnel they intend to assign to the projected vacancies. In this fashion, the team will begin to take shape, removing much uncertainty. Each location will be different and the environment retains its fluid nature. However, this method identifies team members and tailors

them to a template of specific requirements early in the process. Once identified, these team members can communicate among themselves and establish crucial internal relationships with their currently serving counterparts.

The Full Team

As author Shawn Dorman wrote, “Joining military and civilian personnel together for a joint mission is a tall order requiring, among other things, the bridging of cultural divides.”²¹ Building this bridge should not begin at the point of arrival. Even if the embedded provincial reconstruction team manages to achieve a degree of internal harmony and function, acceptance among their military counterparts (and their eventual integration into all brigade operations) is a necessity. Historically, individuals have discovered ways to accelerate this process. One case in point is the “Dog-face Diplomat,” Howard Van Vranken, who clearly demonstrated his desire to be part of the team and thus made the integration process much smoother.²² However, more can be done to institutionalize this integration and set conditions for immediate, on-the-ground impact. Early contact by at least the key members or even just the team leader can help reduce the uncertainties and delays that characterize the beginning of any integration process. Brigade combat teams must gain confidence in the embedded provincial reconstruction team’s collective counsel, even if its insight reveals that development and other improvements will occur at a seemingly glacial pace.²³ Those in the embedded provincial reconstruction team must learn to appreciate the military’s unique organizational culture. After all, as one team member put it, “You’ll not be living alongside a military culture; you’ll be living in the military.”²⁴

Military units embark upon impressively elaborate training exercises prior to deployment. At complexes erected to simulate Iraqi streetscapes, actors role-play local populations and key personalities. Simulated munitions replicate the noise and chaos of battle to create a truly realistic training environment. Just as the brigade strives to ensure that their troops are as prepared as they can possibly be when they encounter the enemy, the embedded provincial reconstruction team should be represented at all of these significant exercises. Beyond the individual training value of these events, one cannot overstate the trust, understanding, and general team-building opportunities of these exercises. Commanders rightfully protest when they must train without even secondary weapons systems. Most acknowledge the importance of stability operations and the role embedded provincial reconstruction teams play in this operational effort. Commanders should insist on team participation at these training events, and embedded personnel should insist on this opportunity to prepare their team for its role.

This early collaboration is not without precedent. Training iterations prior to Bosnia deployments brought together military elements and a training cadre of civilians playing the role of positions they held during previous deployments. In addition, the Pentagon is currently employing a program that pairs members of a “human terrain team” with the units they will support on deployment.²⁵ These cultural experts join their units well in advance of the deployment and participate throughout the train-up period to shape the unit’s combat preparation and carry on into actual operations once deployed.

While unable to immediately affect those currently on the ground, these recommendations are all within reach for the next rotation of war fighters and their civilian teammates. If the embedded provincial reconstruction teams are to achieve their full potential as pivotal components in the rising importance of stability operations, bureaucratic hurdles inherent in this progress must be minimized.

Effectiveness

The embedded provincial reconstruction team finds its niche as an accepted member of the brigade combat team. When a battlefield's rubble is freshly formed, the embedded team is best positioned to deliver its expertise: picking up and bolstering worthy leaders, increasing the capacity of local institutions, and mentoring all sides. Coalition forces, men-on-the-street, and local leaders all need mentoring on the structures, formalities, and mechanisms that have proven successful in other strife-torn countries.

Through an interagency process that identifies embedded provincial reconstruction team personnel (and codifies the team-building, preparation, and integration processes), there is potential to make the teams much more effective. Through early integration, the team will serve as a lens to view the operational environment in its many facets, including those perspectives that are beyond the scope of traditional military strengths. Team integration of military and civilian talent, resources, and expertise can better enable "winning the Nation's wars by fighting within an interdependent joint team."²⁶

Embedded provincial reconstruction teams have borne the burden of interagency hopes and fears in the most unforgiving of environments. War and political scrutiny have forged the civil-military construct into a rough tool for U.S. foreign policy at the focal point of the War on Terrorism. In the Task Force Marne operational environment of Iraq, this trial by fire has exposed imperfections, and there is clearly room for significant refinement. However, a unique capacity is also clear. The embedded teams demonstrated potential, and successes point to an enduring value in making these teams a permanent fixture in force structure. **MR**

Notes

1. FM 3-0, *Operations* (Washington, DC: Government Printing Office [GPO], 27 February 2008), foreword.
2. A provincial reconstruction team is a unit consisting of military officers, diplomats, and reconstruction subject matter experts that work to support reconstruction efforts. An embedded provincial reconstruction team (ePRT) works locally with a brigade combat team (BCT).
3. While the speech itself does refer to doubling the number of provincial reconstruction teams (PRTs), the ePRT concept is not directly mentioned. However, the accompanying fact sheet distributed by the White House explicitly states as a key element: "Establish PRT-capability within maneuver brigade combat teams (BCTs)." <www.whitehouse.gov/news/releases/2007/01/20070110-3.html> (23 April 2009).
4. Provincial Reconstruction Team Playbook (Fort Leavenworth, KS: Center for Army Lessons Learned, September 2007), 69.
5. "...paired PRTs—so named because of their specific alignment with geographic provinces and whose principle focus is the provincial government," COL Ralph Baker, statement before the House Armed Services Committee Subcommittee on Oversight and Investigations on Provincial Reconstruction Team Programs, 4 October 2007.
6. Early descriptions of Multi-National Division-Center's ePRTs called for no less than 7 personnel as a starting point, by late 2007 briefings cited requirements for 11 personnel at Baghdad 4; and 7 personnel each at North Babil, Baghdad 7, and Baghdad 8.

7. Harry L. Coles and Albert K. Weinberg, *Civil Affairs: Soldiers Become Governors*, United States Army in World War II Special Studies (Washington DC: Office of the Chief of Military History, Department of the Army, 1964), 31-32.

8. At the close of World War II, the United States provided brevet promotions to civilians with certain expertise, allowing them to integrate into the post-conflict environment as uniformed members of the overall reconstruction effort. This included the formation of the “Military Government” specialty, the precursor to today’s Civil Affairs branch and military occupational specialty. “The effectiveness of CORDS [Civil Operations and Revolutionary Development Support] was a function of integrated civilian and military teams at every level of society in Vietnam. From district to province to national level, U.S. advisors and interagency partners worked closely with their Vietnamese counterparts . . . and ensured that military and civilian agencies worked closely together . . . Success in meeting basic needs of the populace led, in turn, to improved intelligence . . .” FM 3-24, *Counterinsurgency* (Washington, D.C.: GPO, 15 December 2006), 2-12.

9. Ibid., 1-27. “While security is essential to setting the stage for overall progress, lasting victory comes from a vibrant economy, political participation, and restored hope.”

10. FM 3-24, 2-9.

11. When walking through Task Force Marne Headquarters, it is difficult to miss the large banners that proclaim “No Patience!” or signs fashioned like street warnings depicting the word “Patience” with a red line through it.

12. The United States Agency for International Development’s *Republic of Iraq District Government Field Manual*, vol. I, July 2007, vers. 1; addresses “local-level authorities” as those below Provincial or Governorate level, specifically identifying qadas (counties) and nahias (neighborhoods), 14.

13. *Merriam-Webster Collegiate Dictionary* (Springfield, MS: Merriam-Webster Inc., 2003), 1282.

14. The transformation of Jurf as Sukr. Decimated by political strife and the recent ravages of combat, the town of Jurf as Sukr was seemingly more a candidate for demolition than development. Its abandoned business stalls and the town center stood vacant. However, a vigilant military presence allowed for the seeds of a considered and deliberate revitalization program to take root. The collaborative efforts of ePRT expertise and military resources produced a noteworthy outcome. In the fall of 2007, Dr. Louis Tatem was the United States Agency for International Development representative with the North Babil ePRT that supported in turn both the 4/25 and 4/3 brigade combat teams. Drawing upon his numerous years in post-conflict and developing environments throughout East Asia and Europe, he developed a multi-faceted micro-grant program that served as the cornerstone of the revitalization effort. Counseling against a less nuanced approach employed by military units elsewhere, Dr. Tatem and the ePRT capitalized on strong social pressures at play within Iraqi culture to provide small grants to Iraqis. The intent of these programs is to provide scarce venture capital to allow an economic base to take root. With funding in the form of the Commander’s Emergency Response Program, and dollars and security from the BCT in place, Dr. Tatem first employed a market survey to understand where the populace obtained their goods and why there would be change. Then, he planned the market expansion in deliberate stages to ensure the populace was sincere and to filter individuals as well as businesses and markets. After screening applicants for proven social standing and reasoned

proposals, those initially selected for grants then received basic bookkeeping training. The initial grant recipients felt both the collective pressure and the support of the community, as their results would determine the continuation of the program. This group dynamic served as a far more effective check against fraud or abuse than could any other mechanism. Micro-grant initiatives elsewhere have run into the hundreds of thousands of dollars and have focused on speed of distribution above thoroughness of process, resulting in limited success. By contrast, at a cost of well under \$20,000, Jurf as Sukr is now a social center with more than 40 operational shops. This infused vitality was instrumental in securing funding from the Shi'a dominated provincial government to pave the main thoroughfare of this Sunni community. The resurrection of this now vibrant community owes its existence to the combined efforts of the BCT and the experience and knowledge of ePRT personnel.

15. Michael Hanlon and Kenneth Pollack, "Iraq Trip Report," Brookings Institute (August 2007), 10.

16. Shawn Dorman, "Iraq PRTs: Pins on a Map," *Foreign Service Journal* (March 2007), 24.

17. A recurrent joke about Baghdad 7 ePRT is "How many people are on the ePRT? Two, and one of them is on leave." This underscores the pervasiveness of the manning problem but overstates the reality, as this specific PRT has strong military staff support.

18. This refers to actual extreme individual instances; aged in their middle 70s, and a gross body size that limited their capacity to wear Personal Protective Equipment (body armor) or to travel in the confined spaces of military vehicles.

19. Office of the Special Inspector General for Iraq Reconstruction, "Review of the Effectiveness of the Provincial Reconstruction Team Program in Iraq," 18 October 2007, Arlington, VA, 17.

20. This includes, certainly, the many manifestations of civilian actors in the area, to include nongovernment organizations, independent initiatives of U.S. government agencies and their implementing partners. However, this also differentiates the separate layers of military presence as well. As CPT Jeremiah Fritz, ePRT Baghdad 7 Governance Lead puts it, "The ePRTs must work with the bde staff, but each battalion has ownership of the physical space and is of course then divided into companies and sometimes into platoons. Therefore we have to negotiate our way through myriad different approaches to non-lethal operations. All these personalities collide in 'support' of a single piece of ground."

21. Dorman, 27.

22. Dog-face diplomat. The military is an organization that promotes the team concept and esprit de corps through a phalanx of traditions and ritual. The main element comprising Task Force Marne is the Third Infantry Division, whose members are respectfully referred to as "Dog-Face" Soldiers, a tradition stemming from World War II. Each morning at division headquarters, Soldiers stand and sing the Dog-Face Soldier song. Howard Van Vranken, ePRT team leader, presented a section of the daily battle-update-brief to the Third Infantry Division commanding general MG Rick Lynch, as well as the brigade's commanders and assorted leadership of Multi-National Division-Center gathered there. He began with, "Good evening, Sir. It's another great day to be a Dog-Face Diplomat."

23. “The main point of divergence is in the time horizon,” says foreign service officer Chuck Hunter, team leader for Provincial Reconstruction Team Babil, “with the military focused on short-term effects and State/USAID concerned more with long term outcomes.” Dorman, 29.

24. Horacio Ureta, “Bidding Advice from PRT Anbar,” *Foreign Service Journal* (March 2007), 24.

25. John Vandiver, “Cultural Advisors to Join 1AD for Next Iraq Tour,” *Star and Stripes European Edition* (26 March 2008), <www.stripes.com/article.asp?section=104&article=53600> (23 April 2009).

26. FM 3-0, viii.

Sergeant First Class Jesse P. Pruett, U.S. Army Reserve, served as the “governance cell” noncommissioned officer in charge and provincial reconstruction team advisor for Task Force Marne in Operation Iraqi Freedom V. As a Civil Affairs Soldier, he served two tours in Afghanistan (2002–2006) and he has deployed to Bosnia, Nicaragua, and El Salvador. SFC Pruett currently holds a position with the Joint Improvised Explosive Device Defeat Organization. He holds a B.A. in international relations.

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Afghanistan's Nangarhar Incorporated—A Model for Interagency Success

Major David K. Spencer

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While creating solutions for economic development problems in Afghanistan's Nangarhar province during Operation Enduring Freedom in 2007 and 2008, the 173d Airborne Brigade Combat Team entered into a unique partnership with U.S. government interagency personnel. The result—the Nangarhar Regional Development Plan—was a transformative achievement with far-reaching implications for the counterinsurgency (COIN) effort in Afghanistan. Its conception through interagency collaboration was equally important as a model to emulate for future success. With these and other efforts, the U.S. military is a closer partner with the U.S. interagency community than ever before. Continuing to foster these relationships will be critical to unity of effort and success in the War on Terrorism.

National Strategy

As a member of the 173d Airborne Brigade operating in the strategically important eastern region of Afghanistan (the provinces of Nangarhar, Kunar, Laghman, and Nuristan), I observed the implementation of the Government of the Islamic Republic of Afghanistan's National Development Strategy from 2007 to 2008. The national strategy, approved in interim form in January 2006 at the London Conference, used district and provincial development plans as devices to achieve the overarching strategic vision. The creation of the Afghanistan National Development Strategy and associated provincial development plans involved a series of national and sub-national consultations. Each of 16,753 (later expanded to 18,500) community development councils in Afghanistan submitted project "wish lists" to the 345 respective district development assemblies. These assemblies are vehicles at the district level designed to consolidate projects into the district development plans.¹

Formulation of the Afghanistan National Development Strategy

The projects sent to the district development assemblies were primarily poverty reduction projects and those that affected essential needs of communities (flood control projects, wells, etc).² The district assemblies took the top projects in each of the eight sectors of the Afghanistan National Development Strategy and created the district development plans. From these plans, the top ten projects in each sector were used to create the provincial development plans. In effect, their plans are a consolidated grass-roots driven project wish list generated by communities that did not have a regional view of the development problem. They only saw their own local problems in most cases. Although the provincial development plans state that the national strategies were taken into account, how sector strategies affect the provincial plans in a meaningful way is not clear.

The Afghan National Development Strategy embraces three visions: the political, the economic and social, and the security. Some projects affect each of these. For example, roads are extremely important in Afghanistan and cross all lines of effort. The strategy identifies six other cross-cutting examples: regional cooperation, counter-narcotics, anticorruption, gender equality, capacity development, and environmental management.³

Task Force Bayonet followed three primary lines of effort nested within its higher headquarters' mission and intent: governance, development, and security. These lines of effort were nested

within the Afghanistan National Development Strategy visions, but, although the task force was well equipped to deal with security issues in its region, the brigade had to work hard to address development and governance lines of effort to complement the strategy's political and economic visions.

In developing an operational strategy, the brigade identified economic solutions as critical to overall success. Compelling arguments and data points identify the insurgency in the eastern portion of Afghanistan as one driven by economics. The numbers of ideological fighters in the region are quite low. Many people fight because they have no other way of making a living. In some cases, Provincial Reconstruction Teams (PRTs) have reduced the number of fighters simply by paying \$5.50 per day for the services of fighting-age males—50 cents more a day than the insurgents paid them.

Defeating an economic insurgency requires an economic strategy. A statement from the interim national development strategy is telling: "Ultimately, we want to move beyond dependence upon international aid and build a thriving, legal, private sector-led economy that reduces poverty and enables all Afghans to live in dignity."⁴ The Afghan government understands that development efforts in many cases need not attempt to reduce poverty directly. The long-term solution is to build a thriving economy that will do the job. Revisions in the 2008 version of the strategy display the same logical thought process, but mark a noticeable shift to favor poverty reduction semantics. Because Afghanistan qualifies as a "heavily indebted poor country," obtaining funding from the World Bank and International Monetary Fund requires a Poverty Reduction Strategy Paper. The Afghanistan National Development Strategy serves as this strategy paper for donor funding, but the Afghan government unfortunately uses some policies and procedures that may actually increase poverty. In the 2008 strategy document, the government took a step backward with an economic development objective to "reduce poverty [and] ensure sustainable development through a private-sector-led market economy."⁵ Poverty reduction came to the forefront to leverage international donor money—but at the expense of truly reducing poverty in the long-term by building a thriving economy.

The Problem

If the Afghan government continues to pursue the economic strategy set forth in the Afghanistan National Development Strategy, how can the provincial development plans build a thriving, legal, private-sector-led economy? The contributors to the plan do not have the regional vision necessary to address solutions that build the critical infrastructure required to bring about long-term sustainable economic growth. The grass roots projects understandably address only the immediate needs of communities. Afghanistan's Ministry of Rural Rehabilitation and Development's National Area Based Development Program is currently using \$2.5 million of donor funds from the Asian Development Bank on district and provincial development plans projects in Nangarhar Province. The vast majority of the projects are gabion walls and associated check dams not designed to bring about economic growth and which are frequently washed away by floods. They are simply projects that have been identified as important to communities in the near term.

This situation highlights the major challenge in the provincial development plan construct. Top-down planning with bottom-up refinement should reshape the provincial development plans. Instead of a simple list of check dams, gabion walls, and micro-hydro projects, Task Force Bayonet worked to build the capability of district development assemblies and other Afghan government officials to draw development plans that link together projects to capture and

enhance economic value chains. A comprehensive watershed management plan should lead to a dam with associated power production. Irrigation projects and agricultural development projects should increase the production of grain, leading to a grain elevator powered by the dam project while roads link all the projects together. These interconnected initiatives operating as a whole are far greater than the sum of the parts.

The Solution

In Task Force Bayonet's area of operations, the problem was clear; the difficulty lay in how to address it. The task force began operations in May 2007, and from the beginning, it was apparent that the interagency components required to address governance and development solutions were not present. Department of State, United States Agency for International Development (USAID), and U.S. Department of Agriculture positions in the PRTs were not filled; there was little or no interagency staffing at the brigade level, and the entire complement of interagency personnel in the eastern region was less than 1/100th of one percent of the paratroopers on the ground from the Department of Defense.

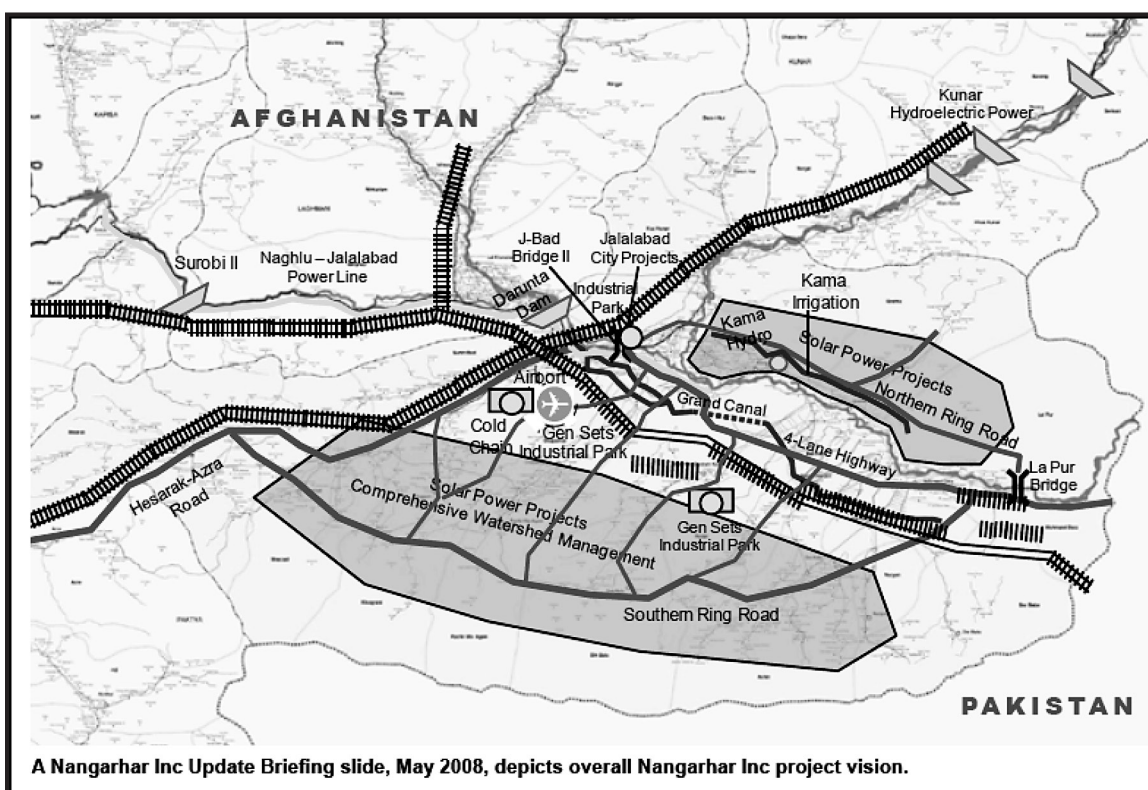
The onus to provide a solution fell on the shoulders of the agency that knew and interacted with the people and government every day. The brigade accepted this task as a necessary burden. FM 3-24, *Counterinsurgency*, states that whenever possible, civilians should perform civilian tasks but "military forces [must] be able to conduct political, social, information and economic programs 'as necessary.' ... Depending on the state of the insurgency, therefore, Soldiers and Marines should prepare to execute many nonmilitary missions to support COIN efforts. Everyone has a role in nation building, not just Department of State and civil affairs personnel."⁶ In fact, Task Force Bayonet undertook a number of initiatives in governance and development simply because no one else was available to do so.

It was with this in mind that the brigade commander and senior leaders traveled to the U.S. Embassy in Kabul at the invitation of the acting brigade political advisor. They met with various interagency leaders to discuss possibilities in Nangarhar. During a meeting with the acting USAID Afghanistan director, International Narcotics and Law Enforcement (INL) director, Department of State interagency resource coordination director, Task Force Bayonet commander Colonel Charles Preysler, Ambassador William Wood, and other leaders, Task Force Bayonet agreed to help facilitate the creation of an economic development plan for the agencies to execute together. The Ambassador said he would like Nangarhar to be a "model for success." And so Nangarhar Inc was born.

Eight key members of the Task Force Bayonet staff, to include the brigade operations officer, the fire support officer, the CJTF-82 liaison officer to Task Force Bayonet, as well as representatives from PRT Nangarhar, traveled to the U.S. Embassy for nine days to prepare the plan. The PRT members were at the end of their deployment with nearly a full year of experience working in Nangarhar under their belts. The leaders from Task Force Bayonet had more than nine months of experience in Nangarhar and the eastern region. Working with the Department of State interagency resource coordinator, with advice and input from the Afghan Reconstruction Group, INL, and USAID, the team prepared the business plan for Nangarhar Inc.

The 62-page business plan used the corporate model to jump-start and create sustainable, long-term economic growth leading to full employment. The plan included input from all agencies involved and included compelling strengths, weaknesses, opportunities, and threats analysis from the Afghanistan Reconstruction Group, a management and sustainability plan, and 35 prioritized

projects with project descriptions, general scope, charts depicting associated timelines, cash flows, and required resources. The projects fell into three categories: quick impact, near term, and long-term.



The Nangarhar Inc quick-impact projects aimed at leveraging the Nangarhar governor's poppy eradication success from 2007 to 2008. However, their critical purpose was to jump-start economic growth in the region. Additionally, intermodal transportation solutions (roads, rail, and a regional airport with an international gateway) were critical to address Nangarhar as a potential agribusiness base.

Due to the lack of available export mechanisms, up to 30 percent of produce grown in Nangarhar rots in the field. To leverage these export opportunities, cold storage with collocated power solutions are also critical to enhancing the economic value chain. Currently, Nangarhar exports a large percentage of its agricultural products to Pakistan, which processes, packages, and stores them until they are later resold in Nangarhar at many times their original price. Nangarhar Inc addresses the critical infrastructure requirements for Afghans to enhance their agribusiness value chain and recapture these lost potential revenues.

During creation, the task force identified power solutions as most critical. Thirty-eight businesses in Jalalabad had failed in a 12-month period in 2008 due to high fuel costs.

Long-term projects have higher price tags, but are critical to ensure the self-sufficiency of the government and to reduce reliance on donor support. One noteworthy long-term power project harnesses an estimated 1,100 megawatts of potential hydroelectric power in adjacent Kunar province by means of a series of dam systems in the Kunar River basin. Power from this project

can go not only to businesses in Nangarhar, but can also assist in developing the Federally Administered Tribal Area and Northwest Frontier Tribal Provinces across the border in Pakistan.

This is an example of a project that requires the combined efforts of the interagency to succeed. USAID funding and expertise may contribute to dam design with the Afghan Ministry of Energy and Water, while the Department of Defense and PRTs work local government issues with the Afghan government in the eastern region. However, U.S. Embassies in Kabul and Islamabad, with national level Afghan and Pakistani officials, must resolve cross-border issues such as power purchase agreements and resolution of water rights disputes. No one agency can pursue all of the Nangarhar Inc projects. Of necessity, this plan must move forward with close interagency cooperation.

Indeed, one of the noteworthy aspects of this plan is the amount of interagency cooperation that went into its creation. The experience of the military forces and expert input from the interagency produced the base business plan. The coordinated efforts of the interagency, led by the U.S. Embassy, are continuing to move Nangarhar Inc forward to its logical conclusion—the development of a strategically important trade and transit corridor that will allow the tremendous strengths of the area to create a self-sustaining regional economic engine.

Nevertheless, the future for Nangarhar Inc as a model for success is not a certain one. The combined and coordinated efforts of the U.S. Government interagency must lead the effort in the early stages and emplace critical infrastructure to attract large-scale foreign capital investment. Unfortunately, uncoordinated development is ubiquitous in Afghanistan. Numerous donor and development agencies in Afghanistan operate under their own priorities. International donors, such as the Asian Development Bank, partner with the United Nations Development Program and governmental agencies such as USAID, GTZ International (Gesellschaft für Technische Zusammenarbeit, an EU funded development agency), and DANIDA (Danish International Development Agency). Afghan development efforts under various ministries, such as the Ministry for Rural Rehabilitation and Development, nongovernmental agencies, and PRTs, operate within the constraints of their respective agencies. In large part, they support the Afghan solution—the Afghanistan National Development Strategy—but development efforts in Afghanistan are disjointed and disconnected because they often follow fundamentally challenged provincial development plans and their own guidelines and mandates.

Task Force Bayonet recognized that the lack of coordination had led to numerous instances of “project fratricide” and that solutions beyond the national development strategy were required. To that end, Task Force Bayonet implemented an initiative called “district mapping” to map the past projects completed in a district. It mapped all development agencies’ current projects and future projects envisioned provincial and district Afghan leaders. The plan is moving forward in cooperation with the UN Assistance Mission to Afghanistan and the Joint, interagency, multinational, and host-nation community of the eastern region. This initiative has tremendous potential.

Even within the U.S. government, efforts are not always synchronized. Although the U.S. is fighting a counterinsurgency campaign in Afghanistan as part of the War on Terrorism, USAID (the primary U.S. development agency operating there), is focused on “developing Afghanistan.” Although the country team director (the Ambassador) directed that development efforts focus on certain priorities, USAID instead focused on its internal priorities. Although FM 3-24 only covers the ground elements of the Department of Defense and not the rest of the interagency, the following statement from that manual is wholly applicable to the current situation:

Unity of effort must be present at every echelon of a COIN operation. Otherwise, well intentioned but uncoordinated actions can cancel each other or provide vulnerabilities for insurgents to exploit. Ideally, a single counterinsurgent leader has authority over all government agencies involved in COIN operations... The U.S. ambassador and country team, along with senior HN representatives, must be key players in higher level planning; similar connections are needed throughout the chain of command.⁷

Without unity of effort between the U.S. government agencies, ensuring the success of focused development strategies such as Nangarhar Inc becomes difficult.

The Way Ahead

We must address interagency discord while pursuing strategies similar to Nangarhar Inc. Although the Department of Defense and Department of State are conducting a counterinsurgency in Afghanistan, the mandate of USAID can be simplified as “development,” although its objectives aim to further the foreign policy goals of the United States. “Developing Afghanistan” can move forward in many ways and does not always contribute to the kind of effects desired in a COIN environment. Department of Defense doctrine indicates “reinforcing success,” while agencies such as USAID typically go where the need is greatest, sometimes for short-term gain at the expense of long-lasting effects that strike at the heart of insurgencies. The country team leader, in coordination with and supported by the various agencies operating in strategic regions, must address these issues.

Nangarhar Inc’s solutions are logical and compelling replies to those who argue that we should spend development funds equally across Afghanistan or in other developing countries. Providing what some might consider a disproportionate amount of development funds in areas such as Nangarhar will pay a high dividend because the seed for success already exists. Investing in other areas can be likened to “pouring water into the sand.”

The Afghan government also must become more involved in all phases to ensure success of Nangarhar Inc. Various government documents show they understand this. Article 10 of the Afghan Constitution “encourages and protects private capital investments and enterprises based on the market economy...”⁸ The government notes in the Afghanistan National Development Strategy that “given the major limitations in the economic environment that must be addressed, the successful transition to a competitive market economy will require sustained commitment, albeit with the support of the international community. Simply creating conditions in which the private sector can operate alone will not be sufficient.”⁹ Continued efforts are required by the U.S. government to emplace the critical infrastructure needed to jump-start economic growth in Nangarhar, with government cooperation in setting and sustaining the conditions required not only to enable and sustain Afghan businesses, but also to bring in foreign capital and private investment.

In the expansion of the Nangarhar model to the other PRTs in eastern region, future plans and refinements of the provincial development plans must take place in close cooperation with the government. Coordinating development plans in the manner of Nangarhar Inc, while weaving them into the fabric of the provincial development plans, will achieve the vision of the Afghanistan National Development Strategy.

Task Force Bayonet moved to the next logical step of Nangarhar Inc. It provided the Nangarhar Inc creation methodology to the three other PRTs in the eastern region and helped them coach

their Afghan counterparts to refine their provincial development visions. “Wadan Laghman” (Prosperous Laghman), Kunar’s “Province of Opportunity,” and a development plan in eastern Nuristan are all refinements of Provincial Development Plans. Task Force Bayonet hosted a conference to coordinate these activities with Nangarhar Inc in an “Eastern Region Development Plan.”

This plan, with Nangarhar Inc as the economic engine, harnesses the plentiful natural resources of the adjacent provinces and leverages the potential of the region as a strategic trade and transit hub.

For Nangarhar Inc to become successful and spread across the country as part of a future U.S. COIN strategy, the U.S. government interagency must act together in a coordinated manner with the embassy in Kabul. Coordination of efforts will create a synergistic effect that will contribute to the overall counterinsurgency strategy in Afghanistan and illuminate the way ahead for an eventual exit strategy in Afghanistan. To be successful in the War on Terrorism, we must duplicate the level of U.S. interagency cooperation illustrated in the creation and implementation of Nangarhar Inc. **MR**

Notes

1. *The Provincial Development Plan of Nangarhar Province*, 5 to 15 August 2007, 9-10.
2. *Ibid.*, 11.
3. *Afghanistan National Development Strategy: A Strategy for Security, Governance, Economic Growth, and Poverty Reduction*, 1387-1391 (2008-2013), 13.
4. *Interim Afghanistan National Development Strategy*, January 2006, 9.
5. *Afghanistan National Development Strategy*, 1.
6. Field Manual 3-24, *The U.S. Army/Marine Corps Counterinsurgency Field Manual* (IL: University of Chicago Press, 2006), xxxi, 49.
7. *Ibid.*, 39.
8. *The Constitution of Afghanistan*, 4 January 2004, Article 10.
9. Afghanistan National Development Strategy, 4.
Major David K. Spencer is currently a student at the Naval Postgraduate School in Monterey, CA. He received a B.A. from St. Bonaventure University. During deployment to Afghanistan in support of Operation Enduring Freedom 08 as the brigade fire support officer, he managed the brigade's efforts in governance and development in coordination with U.S. Government agencies. He has served in the continental United States, Europe, two tours in Iraq, and one tour in Afghanistan.

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USDA at Work for Agriculture in Afghanistan

United States Department of Agriculture Foreign Agricultural Service, October 2009

Agriculture is the main source of income for the Afghanistan economy. Eighty percent of Afghanistan's population is involved in farming, herding or both, even though just 12 percent of Afghanistan's total land area is arable and less than 6 percent is currently cultivated. The U.S. Department of Agriculture (USDA) is helping Afghanistan revitalize its agricultural sector through a variety of activities aimed to strengthen the capacity of the Afghan government, rebuild agricultural markets, and improve management of natural resources.

USDA Representation. USDA currently has a Foreign Service Officer and an Expert Advisor in Kabul and intends to expand the office in the coming months. Since 2003, USDA has deployed 57 people for medium and long term assignments in Afghanistan. USDA has also provided roughly \$229 million in food aid to Afghanistan since 2003.

Trilateral Working Groups. In May 2009, the United States, Afghanistan, and Pakistan agreed to establish three working groups on food security, trade corridors and water management. USDA announced its selections of six to eight members for each of the working groups in October 2009. Afghanistan and Pakistan are expected to name their selections soon.

Provincial Reconstruction Teams (PRTs). In Afghanistan, PRTs are led by the U.S. Department of Defense and are typically composed of about 50-100 military personnel (both force protection and civil affairs personnel) and a few civilians. The PRT agricultural expert is one of only a few civilians on the PRT, along with representatives from the U.S. Department of State and field program officers from the U.S. Agency for International Development (USAID).

Currently, USDA has 11 agricultural experts and one PRT liaison officer, each serving a 1-year assignment in Afghanistan. By early 2010, USDA expects to have 64 agricultural staff in Afghanistan. All agricultural experts selected, trained, and deployed for these assignments do so on a voluntary basis.

Projects vary for agricultural experts depending on the needs of the province. As members of a fully integrated USG team, agricultural experts have helped to install windmills to pump water for irrigation and livestock, trained veterinarians to detect and treat parasites, refurbished a university's agricultural research laboratory, stabilized eroded river banks and irrigation canals, developed post-harvest storage facilities, established nurseries and reforested areas, rehabilitated degraded orchards, and mentored provincial directors of agriculture. All projects are aimed at helping Afghanistan reconstruct the physical and institutional infrastructure of its agricultural sector.

Technical Assistance. Ongoing USDA technical assistance has helped establish the Afghan Conservation Corps (ACC) which, along with the Ministry of Agriculture, Irrigation, and Livestock (MAIL), has led to the planting of more than five million trees on Afghanistan's devastated landscape, the ongoing construction of agricultural extension centers in half of Afghanistan's provinces, the training of numerous key Afghan agricultural officials, and the initiation of a national system to control animal disease.

FAS, along with USDA's Animal and Plant Health Inspection Service and Cooperative State Research, Education, and Extension Service (CSREES), provide technical assistance and training to help build Afghanistan's national capacity to detect and control animal diseases. A CSREES veterinarian is in the final year of a 3-year assignment in Afghanistan, coordinating short-term assignments with land-grant universities (University of Georgia, Michigan State University, and Texas A&M University) and other USDA experts provide expertise and training to Afghanistan's MAIL staff, Kabul University veterinary and animal health faculty, and others in animal disease surveillance, data analysis, field response, lab diagnostics, and national planning for disease control. Under an agreement with FAS, Fort Valley State University, an 1890's land-grant university in Georgia, produced an illustrated handbook of animal diseases of Afghanistan.

USDA provided technical guidance to Afghanistan's Ministry of Higher Education to improve the Ministry's use of USDA monetized food aid proceeds to build university teaching capacity in the agricultural and veterinary sciences. Similar assistance was given to MAIL in programming monetized food aid proceeds for use in improving its ability to deliver extension services. Efforts in agricultural extension led to the development of a prototype district-level agricultural extension facility and staffing model. The funds have also supported the construction of 17 provincial agricultural centers for extension and cultural activities. Activities to assist in agricultural extension will focus on horticultural products. FAS has signed an agreement with the University of California-Davis to build MAIL's capacity to produce agricultural extension materials.

In 2003, USDA, in collaboration with the U.S. Department of State, the Afghan Government, and the United Nations Office for Project Services, established the ACC, with the goal of putting thousands of unemployed Afghans to work. USDA has provided technical guidance to assist the ACC and MAIL in developing a pistachio forest management plan for rehabilitating degraded pistachio woodlands. In 2006, participating villages realized a 65-percent increase in income from pistachio nuts, with further growth realized in 2007. This project is being expanded to include other villages.

U.S. Based Training. The Cochran Fellowship Program (CFP) provides short-term training in the United States to help countries develop market-driven food systems and increase trade links with U.S. agribusinesses. In 2008, the CFP hosted eight agricultural extension agents from Afghanistan. Just recently in 2009, the CFP hosted six veterinarians in their efforts to help Afghanistan improve the health of their livestock herds. In addition, since 2004, two Afghan men participated in animal disease training and 14 Afghan women participated in a training program on the role of women in small agricultural enterprise development.

The Norman E. Borlaug International Agricultural Science and Technology Fellowship Program (Borlaug Fellowship Program) provides six to eight week collaborative research training for entry-level scientists, university faculty, and policymakers from developing and middle-income countries. Since 2006, 11 Afghans have participated in the Borlaug Fellowship Program to increase collaboration between Afghanistan's universities and U.S. faculty and scientists in the areas of animal health, rangeland management, and horticulture. The Faculty Exchange Program brings university instructors of agricultural economics and sciences to the United States to work with U.S. professors to upgrade their technical knowledge and develop new and revised courses for their universities at home. Since 2006, USDA has hosted two participants each year from Kabul University for a total of six to date. USDA anticipates an additional two people to participate in 2009. Participants have been teachers of forestry, horticulture, soil science, and entomology.

Food Assistance. USDA has provided food assistance to Afghanistan through two food assistance programs—the Food for Progress (FFPr) and the McGovern-Dole International Food for Education and Child Nutrition (McGovern-Dole) programs. Since 2003, USDA has provided roughly \$229 million in food aid to Afghanistan. The FFPr improves nutrition and supports agricultural and economic development projects in developing countries that are emerging democracies and are introducing or expanding free enterprise in their agricultural sectors. The McGovern-Dole Program helps promote education, child development, and food security in low-income, food-deficit countries that are committed to universal education. The program provides donations of U.S. agricultural products, as well as financial and technical assistance, for school feeding and maternal and child nutrition projects. In FY 2009, USDA will provide Afghanistan with \$32 million in food assistance under FFPr. This figure includes a 2009 with Shelter for Life International. Proceeds from the sale of wheat in Afghanistan will be used to fund the expansion of irrigated land, expand market access, and provide credit. USDA will also provide an additional \$17 million in FFPr assistance directly to the Government of Afghanistan. Proceeds from the sale of soybean oil donated to the government will continue initiatives begun under Afghanistan's FY 2008 FFPr agreement, with a focus on expansion of wheat production through procurement and distribution of wheat seed.

In March 2008, USDA allocated \$10.3 million through a government-to-government FFPr grant with Afghanistan. The grant provided 5,500 metric tons of soybean oil for sale in Afghanistan to support agricultural development. USDA food assistance to Afghanistan in FY 2008 also included a \$10.2 million FFPr agreement with Roots of Peace to enhance grape and orchard production and provide business and credit services. In addition, World Vision implemented a McGovern-Dole school feeding program, which provided for take-home rations to students, teachers, and school personnel in more than 500 schools.

Note: Additional information from the United States Department of Agriculture's Foreign Agriculture Service can be found on its Web site: <www.fas.usda.gov>.

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CADD develops, writes, and updates Army doctrine at the corps and division level. Find the doctrinal publications at either the Army Publishing Directorate (APD) <<http://www.usapa.army.mil>> or the Reimer Digital Library <<http://www.adtdl.army.mil>>.

Foreign Military Studies Office (FMSO)

FMSO is a research and analysis center on Fort Leavenworth under the TRADOC G2. FMSO manages and conducts analytical programs focused on emerging and asymmetric threats, regional military and security developments, and other issues that define evolving operational environments around the world. Find FMSO products at <<http://fmso.leavenworth.army.mil/>>.

Military Review (MR)

MR is a revered journal that provides a forum for original thought and debate on the art and science of land warfare and other issues of current interest to the U.S. Army and the Department of Defense. Find MR at <<http://usacac.army.mil/cac2/militaryreview/index.asp>>.

TRADOC Intelligence Support Activity (TRISA)

TRISA is a field agency of the TRADOC G2 and a tenant organization on Fort Leavenworth. TRISA is responsible for the development of intelligence products to support the policy-making, training, combat development, models, and simulations arenas. Find TRISA Threats at <<https://dcsint-threats.leavenworth.army.mil/default.aspx>> (requires AKO password and ID).

Combined Arms Center-Capability Development Integration Directorate (CAC-CDID)

CAC-CDID is responsible for executing the capability development for a number of CAC proponent areas, such as Information Operations, Electronic Warfare, and Computer Network Operations, among others. CAC-CDID also teaches the Functional Area 30 (Information Operations) qualification course. Find CAC-CDID at <<http://usacac.army.mil/cac2/cdid/index.asp>>.

U.S. Army and Marine Corps Counterinsurgency (COIN) Center

The U.S. Army and Marine Corps COIN Center acts as an advocate and integrator for COIN programs throughout the combined, joint, and interagency arena. Find the U.S. Army/U.S. Marine Corps COIN Center at: <<http://usacac.army.mil/cac2/coin/index.asp>>.

Joint Center for International Security Force Assistance (JCISFA)

JCISFA's mission is to capture and analyze security force assistance (SFA) lessons from contemporary operations to advise combatant commands and military departments on appropriate doctrine; practices; and proven tactics, techniques, and procedures (TTP) to prepare for and conduct SFA missions efficiently. JCISFA was created to institutionalize SFA across DOD and serve as the DOD SFA Center of Excellence. Find JCISFA at <<https://jcisfa.jcs.mil/Public/Index.aspx>>.

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10 Meade Avenue, Building 50
Fort Leavenworth, KS 66027-1350
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